Morgan Stanley | RESEARCH

IDEA

March 21, 2023 04:01 AM GMT

30 for 2025 | North America

Quality Stocks for a Long-Term Holding Period

As we contemplate the end of this bear market, we refresh a cornerstone Morgan Stanley analysis, '30 for 2025': Our best long-term picks based on the sustainability and quality of the business model, and opportunity to widen their competitive advantage.

Our view remains that the current bear market is not over. We expect earnings to drop well below consensus expectations, with our base case for 2023 at $195. We believe this will be followed by a stronger earnings picture in 2024.

That said, we have also identified potential cyclical and secular drivers of the next bull market in equities, including more accommodative monetary policy as inflation slows; a more stable starting point for consumer balance sheets; pent-up demand in investment / capex and in certain parts of consumer services; a global growth recovery led by economies that have lagged since the pandemic; the reemergence of positive operating leverage; Artificial Intelligence and its diffusion across sectors; and reshoring.

So, which stocks should investors focus on as we contemplate an end to this bear market? '*30 for 2025*' identifies our best long-term picks. Our work has long supported the view that quality outperforms in the long run. Accordingly, we asked each of our US analysts to identify the highest-quality companies in their sectors, the ones likely to strengthen their sustainable competitive advantage. This report highlights 30 companies that look especially well positioned.

The main criterion is sustainability — of competitive advantage, business model, pricing power, cost efficiency, and growth. From more than 50 companies singled out by our analysts, we narrowed our focus to those that stood out on these criteria. We paid particular attention to RNOA, management's strategy, capital structure, and shareholder remuneration (dividends / buybacks). We also examined each stock's scores in our Quant Strategy team's stock selection models. Additionally, we integrated Environmental, Social, and Governance (ESG) factors into our decision process, and assessed key risks and opportunities for each company.

We sought to identify the best franchises, not the most undervalued stocks. There was no prerequisite that they be rated Overweight, and we were largely agnostic about their valuations. Our guiding principle was to create a list of companies whose business models and market positions would be increasingly differentiated into 2025.

MORGAN STANLEY & CO. LLC

Michelle M. Weaver, CFA
EQUITY STRATEGIST
Michelle.M.Weaver@morganstanley.com +1 212 296-5254

Michael J Wilson
EQUITY STRATEGIST
M.Wilson@morganstanley.com +1 212 761-2532

Andrew B Pauker
EQUITY STRATEGIST
Andrew.Pauker@morganstanley.com +1 212 761-1330

Diane Ding, Ph.D.
QUANTITATIVE STRATEGIST
Qian.Ding@morganstanley.com +1 212 761-6758

Nicholas Lentini, CFA
RESEARCH ASSOCIATE
Nick.Lentini@morganstanley.com +1 212 761-5863

Alphabet
American Express
Blackstone
Cheniere Energy
Costco Wholesale
Eaton
Eli Lilly
Estee Lauder
Exxon Mobil
Hilton Worldwide
Intuitive Surgical
JPMorgan Chase
Liberty Formula One
Linde
Lululemon Athletica
MasterCard
Microsoft
Motorola Solutions
MSCI Inc.
NextEra Energy
Nike
Northrop Grumman
Old Dominion Freight Line
Prologis
Raytheon Technologies
Thermo Fisher Scientific
T-Mobile US
UnitedHealth Group
Visa
Yum! Brands

Morgan Stanley does and seeks to do business with companies covered in Morgan Stanley Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of Morgan Stanley Research. Investors should consider Morgan Stanley Research as only a single factor in making their investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

Contributors

Morgan Stanley & Co. LLC

Vincent Andrews, Equity Analyst (Chemicals)
(212) 761 3293 / Vincent.Andrews@morganstanley.com

David Arcaro, Equity Analyst (Utilities)
(212) 761 1817 / David.Arcaro@morganstanley.com

Michael Cyprys, Equity Analyst (Brokers & Asset Managers)
(212) 761 7619 / Michael.Cyprys@morganstanley.com

James Faucette, Equity Analyst (Payments and Processing)
(212) 296 5771 / James.Faucette@morganstanley.com

Simon Flannery, Equity Analyst (Telecom Services)
(212) 761 6432 / Simon.Flannery@morganstanley.com

Terence Flynn, Equity Analyst (Major Pharmaceuticals)
(212) 761 2230 / Terence.Flynn@morganstanley.com

Stephen Grambling, Equity Analyst (Gaming & Lodging)
(212) 761 1010 / Stephen.Grambling@morganstanley.com

Betsy Graseck, Equity Analyst (Large Cap Banks & Consumer Finance)
(212) 761 8473 / Betsy.Graseck@morganstanley.com

Simeon Gutman, Equity Analyst (Hardline/Broadline/Food Retail)
(212) 761 3920 / Simeon.Gutman@morganstanley.com

Brian Harbour, Equity Analyst (Restaurants)
(617) 856 8090 / Brian.Harbour@morganstanley.com

Ronald Kamdem, Equity Analyst (Real Estate Investment Trusts)
(212) 296 8319 / Ronald.Kamdem@morganstanley.com

Toni Kaplan, Equity Analyst (Business & Education Services)
(212) 761 3620 / Toni.Kaplan@morganstanley.com

Kristine Liwag, Equity Analyst (Aerospace & Defense)
(212) 761 2980 / Kristine.Liwag@morganstanley.com

Meta Marshall, Equity Analyst (Telecom Equip. & Software)
(212) 761 0430 / Meta.Marshall@morganstanley.com

Devin McDermott, Equity Analyst (Integrated Energy)
(212) 761 1125 / Devin.McDermott@morganstanley.com

Dara Mohsenian, Equity Analyst (Household & Personal Care Products)
(212) 761 6575 / Dara.Mohsenian@morganstanley.com

Brian Nowak, Equity Analyst (Internet)
(212) 761 3365 / Brian.Nowak@morganstanley.com

Joshua Pokrzywinski, Equity Analyst (Multi-Industry)
(212) 761 4645 / Josh.Pokrzywinski@morganstanley.com

Drew Ranieri, Equity Analyst (Medical Technology)
(212) 761 5545 / Drew.Ranieri@morganstanley.com

Tejas Savant, Equity Analyst (Life Science Tools & Diagnostics)
(212) 761 1955 / Tejas.Savant@morganstanley.com

Ravi Shanker, Equity Analyst (Airlines / Freight Transportation)
(212) 761 6350 / Ravi.Shanker@morganstanley.com

Alex Straton, Equity Analyst (Retail)
(212) 761 5583 / Alex.Straton@morganstanley.com

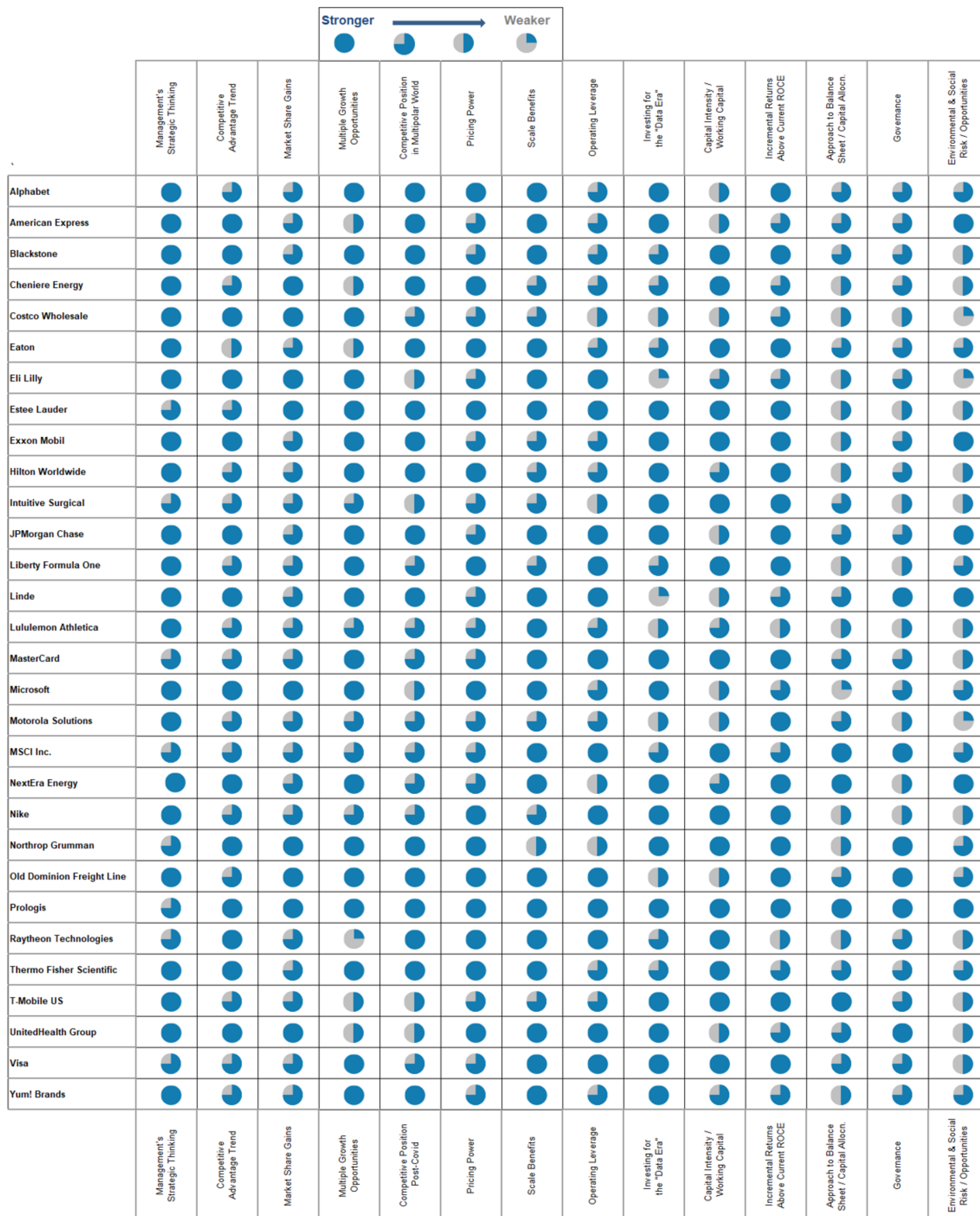
Benjamin Swinburne, Equity Analyst (Media)
(212) 761 7527 / Benjamin.Swinburne@morganstanley.com

Keith Weiss, Equity Analyst (Software)
(212) 761 4149 / Keith.Weiss@morganstanley.com

Erik Woodring, Equity Analyst (IT Hardware)
(212) 296 8083 / Erik.Woodring@morganstanley.com

Erin Wright, Equity Analyst (Health Care)
(212) 761 6137 / Erin.Wright1@morganstanley.com

Our Analysts' Assessments



Source: Morgan Stanley Research

Financial Metrics

Exhibit 1: Financial Metrics

Ticker	Company	GICS Sector	Analyst	Survey Score	Market Cap	Revenue 5-Yr CAGR ('20-25e)	EPS 5-Yr CAGR ('20-25e)	EBIT Margin (%)		RNOA (%)		Net Debt / EBITDA	Interest Cover
								2023e	2025e	2023e	2025e	2023e	2023e
GOOGL.O	Alphabet Inc.	Communication Services	Nowak, Brian	48	1,306,460	17%	23%	27.4% e	28.5% e	54.3% e	61.7% e	NM	NM
AXP.N	American Express Company	Financials	Graseck, Betsy	46	116,461	15%	32%	NM	NM	33.8% e	34.4% e	NM	NM
BX.N	Blackstone Inc.	Financials	Cyprys, Michael	48	103,369	22%	22%	58.7% e	60.9% e	35.2% e	49.0% e	1.4 e	55.1x
LNG.A	Cheniere Energy Inc	Energy	McDermott, Devin	44	35,062	19%	65%	36.9% e	28.7% e	26.5% e	22.1% e	2.2 e	5.1x
COST.O	Costco Wholesale Corp	Consumer Staples	Gutman, Simeon	39	215,998	10%	14%	3.5% e	3.5% e	29.5% e	30.7% e	NM	NM
ETN.N	Eaton Corporation PLC	Industrials	Pokrzywinski, Joshua	46	63,822	7%	16%	18.7% e	19.6% e	10.8% e	13.3% e	1.3 e	21.0x
LLY.N	Eli Lilly & Co.	Health Care	Flynn, Terence	42	313,494	11%	15%	30.5% e	40.3% e	35.2% e	55.2% e	1.3 e	68.0x
EL.N	Estee Lauder Companies Inc	Consumer Staples	Mohsenian, Dara	48	83,790	8%	17%	15.3% e	19.8% e	24.6% e	36.2% e	0.7 e	21.8x
XOM.N	Exxon Mobil Corporation	Energy	McDermott, Devin	45	406,447	15%	NM	15.6% e	10.5% e	23.5% e	15.8% e	NM	91.2x
HLT.N	Hilton Worldwide Holdings Inc	Consumer Discretionary	Grambling, Stephen	46	36,381	22%	141%	25.6% e	26.0% e	27.7% e	32.8% e	2.7 e	6.0x
ISRG.O	Intuitive Surgical Inc.	Health Care	Ranieri, Drew	41	83,291	14%	15%	33.4% e	35.2% e	37.7% e	44.6% e	NM	NM
JPM.N	JPMorgan Chase & Co	Financials	Graseck, Betsy	50	370,304	5%	12%	NM	NM	15.2% e	14.0% e	NM	NM
FWONK.O	Liberty Formula One	Communication Services	Swinburne, Benjamin	46	17,388	28%	NM	10.1% e	13.6% e	7.1% e	8.5% e	1.5 e	1.9x
LIN.N	Linde PLC	Materials	Andrews, Vincent	47	162,654	6%	15%	25.3% e	27.6% e	11.9% e	13.5% e	1.3 e	42.5x
LULU.O	Lululemon Athletica Inc.	Consumer Discretionary	Straton, Alex	39	37,609	22%	28%	23.1% e	24.0% e	65.9% e	77.5% e	NM	NM
MA.N	MasterCard Inc	Information Technology	Faucette, James	47	333,311	16%	21%	58.1% e	59.1% e	78.9% e	128.4% e	0.1 e	36.0x
MSFT.O	Microsoft	Information Technology	Weiss, Keith	45	2,080,022	14%	18%	41.5% e	43.8% e	64.7% e	65.8% e	NM	NM
MSI.N	Motorola Solutions Inc	Information Technology	Marshall, Meta	39	44,194	8%	12%	27.1% e	29.4% e	40.5% e	46.4% e	1.4 e	11.5x
MSCI.N	MSCI Inc.	Financials	Kaplan, Toni	47	43,001	13%	19%	55.1% e	57.2% e	46.0% e	63.5% e	2.4 e	8.5x
NEE.N	NextEra Energy Inc	Utilities	Arcaro, David	48	150,394	11%	10%	32.2% e	35.0% e	6.5% e	6.7% e	5.1 e	3.2x
NKE.N	Nike Inc.	Consumer Discretionary	Straton, Alex	45	186,672	9%	13%	13.1% e	16.3% e	38.4% e	40.6% e	0.0 e	NM
NOC.N	Northrop Grumman Corp.	Industrials	Liwag, Kristine	48	67,894	4%	5%	10.6% e	11.8% e	12.4% e	15.1% e	1.9 e	7.0x
ODFL.O	Old Dominion Freight Line Inc	Industrials	Shanker, Ravi	49	36,480	12%	21%	29.0% e	30.0% e	38.1% e	37.1% e	NM	920.5x
PLD.N	Prologis, Inc.	Real Estate	Kamdem, Ronald	55	107,145	14%	10%	40.1% e	39.5% e	4.2% e	4.7% e	3.8 e	5.3x
RTX.N	Raytheon Technologies Corp	Industrials	Liwag, Kristine	43	140,102	5%	17%	12.1% e	13.4% e	6.5% e	8.4% e	2.3 e	6.1x
TMO.N	Thermo Fisher Scientific Inc.	Health Care	Savant, Tejas	49	210,961	10%	9%	23.9% e	24.9% e	13.6% e	16.0% e	1.9 e	22.5x
TMUS.O	T-Mobile US, Inc.	Communication Services	Flannery, Simon	44	173,701	5%	35%	20.4% e	24.1% e	8.7% e	10.7% e	2.5 e	4.9x
UNH.N	UnitedHealth Group Inc	Health Care	Wright, Erin	48	437,971	11%	14%	8.9% e	9.4% e	26.3% e	35.3% e	0.5 e	11.3x
V.N	Visa Inc.	Information Technology	Faucette, James	47	447,433	13%	17%	67.9% e	69.2% e	37.2% e	41.6% e	NM	145.0x
YUM.N	Yum! Brands, Inc.	Consumer Discretionary	Harbour, Brian	46	35,532	8%	13%	32.8% e	34.2% e	74.4% e	88.1% e	4.9 e	4.3x

Source: Morgan Stanley Research ModelWare.
Share prices as of March 17th.
Metrics are calculated using the "for consensus' methodology.
NA = Not Applicable; NM = Not Meaningful
For PLD.N: Numbers in EPS column represent FFO per share.
For BX.N, AXP.N, and JPM.N: Numbers in RNOA column represent ROE numbers.

Valuation Metrics

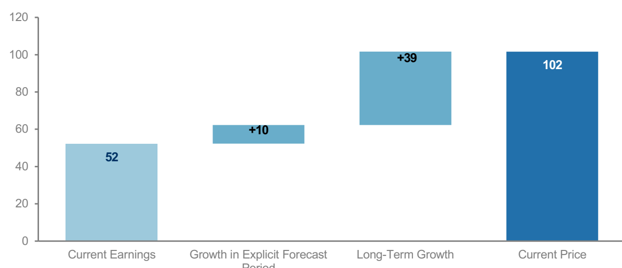
Exhibit 2: Valuation Metrics

Ticker	Company	GICS Sector	Analyst	Fiscal Year End	Price	P/E 2023e	EV/EBIT 2023e	FCF Yld 2023e	Div Yld 2023e	12-18 month upside/downside to Base / PT	Bull	Bear	Risk-Reward Values Bull	Bear	Base	PT
GOOGL.O	Alphabet Inc.	Communication Services	Nowak, Brian	Dec	101.62	18.0 e	13.4 e	10.5% e	NA	33%	72%	-16%	175.00	85.00	135.00	135.00
AXP.N	American Express Company	Financials	Graseck, Betsy	Dec	156.52	13.8 e	NM	NA	1.5% e	19%	47%	-23%	230.00	120.00	186.00	186.00
BX.N	Blackstone Inc.	Financials	Cyprys, Michael	Dec	84.89	20.9 e	19.5 e	5.4% e	4.1% e	35%	93%	-43%	164.00	48.00	115.00	115.00
LNG.A	Cheniere Energy Inc	Energy	McDermott, Devin	Dec	143.87	7.5 e	7.6 e	3.8% e	1.2% e	31%	87%	-5%	269.00	137.00	189.00	189.00
COST.O	Costco Wholesale Corp	Consumer Staples	Gutman, Simeon	Aug	487.05	34.2 e	25.1 e	3.2% e	0.8% e	7%	42%	-28%	690.00	350.00	520.00	520.00
ETN.N	Eaton Corporation PLC	Industrials	Pokrzywinski, Joshua	Dec	160.15	19.2 e	16.7 e	5.9% e	2.0% e	25%	56%	-6%	250.00	150.00	200.00	200.00
LLY.N	Eli Lilly & Co.	Health Care	Flynn, Terence	Dec	329.18	36.8 e	33.2 e	2.1% e	1.4% e	35%	72%	-37%	566.00	209.00	444.00	444.00
EL.N	Estee Lauder Companies Inc	Consumer Staples	Mohsenian, Dara	Jun	234.56	45.5 e	33.1 e	1.5% e	1.1% e	20%	56%	-10%	366.00	212.00	281.00	281.00
XOM.N	Exxon Mobil Corporation	Energy	McDermott, Devin	Dec	99.84	9.9 e	6.4 e	11.0% e	3.7% e	14%	40%	-26%	140.00	74.00	114.00	114.00
HLT.N	Hilton Worldwide Holdings Inc	Consumer Discretionary	Grambling, Stephen	Dec	136.54	21.9 e	16.6 e	5.3% e	0.7% e	23%	56%	-30%	213.00	96.00	168.00	168.00
ISRG.O	Intuitive Surgical Inc.	Health Care	Ranieri, Drew	Dec	237.80	45.1 e	35.2 e	2.1% e	NA	11%	26%	-9%	300.00	216.00	265.00	265.00
JPM.N	JPMorgan Chase & Co	Financials	Graseck, Betsy	Dec	125.81	8.7 e	NM	NA	3.3% e	38%	57%	-13%	197.00	110.00	173.00	173.00
FWONK.O	Liberty Formula One	Communication Services	Swinburne, Benjamin	Dec	71.65	130.3 e	53.6 e	1.0% e	0.0% e	12%	26%	-30%	90.00	50.00	80.00	80.00
LIN.N	Linde PLC	Materials	Andrews, Vincent	Dec	330.49	24.7 e	20.8 e	3.1% e	1.5% e	10%	30%	-24%	430.00	250.00	365.00	365.00
LULU.O	Lululemon Athletica Inc.	Consumer Discretionary	Straton, Alex	Jan	294.74	25.0 e	16.2 e	4.4% e	0.0% e	31%	130%	-59%	678.00	122.00	387.00	387.00
MA.N	MasterCard Inc	Information Technology	Faucette, James	Dec	349.66	28.5 e	22.8 e	3.8% e	0.7% e	25%	66%	-39%	580.00	214.00	438.00	438.00
MSFT.O	Microsoft	Information Technology	Weiss, Keith	Jun	279.43	29.6 e	23.1 e	3.2% e	1.0% e	10%	35%	-35%	376.00	181.00	307.00	307.00
MSI.N	Motorola Solutions Inc	Information Technology	Marshall, Meta	Dec	264.24	23.7 e	19.3 e	3.7% e	1.0% e	-2%	23%	-32%	325.00	180.00	260.00	260.00
MSCI.N	MSCI Inc.	Financials	Kaplan, Toni	Dec	537.09	40.3 e	33.3 e	2.6% e	1.1% e	1%	29%	-28%	692.00	385.00	543.00	543.00
NEE.N	NextEra Energy Inc	Utilities	Arcaro, David	Dec	75.67	24.4 e	26.3 e	(2.6%) e	2.5% e	28%	39%	-22%	105.00	59.00	97.00	97.00
NKE.N	Nike Inc.	Consumer Discretionary	Straton, Alex	May	120.39	29.7 e	24.5 e	2.3% e	1.2% e	16%	85%	-40%	223.00	72.00	140.00	140.00
NOC.N	Northrop Grumman Corp.	Industrials	Liwag, Kristine	Dec	443.60	20.0 e	18.9 e	3.0% e	1.6% e	35%	72%	-23%	762.00	341.00	601.00	601.00
ODFL.O	Old Dominion Freight Line Inc	Industrials	Shanker, Ravi	Dec	331.56	27.2 e	19.8 e	2.5% e	0.4% e	3%	25%	-17%	415.00	275.00	340.00	340.00
PLD.N	Prologis, Inc.	Real Estate	Kamdem, Ronald	Dec	116.03	21.2	22.0 e	3.8% e	3.0% e	10%	22%	-34%	141.00	76.00	128.00	128.00
RTX.N	Raytheon Technologies Corp	Industrials	Liwag, Kristine	Dec	95.75	19.1 e	19.1 e	3.5% e	2.3% e	20%	97%	-32%	189.00	65.00	115.00	115.00
TMO.N	Thermo Fisher Scientific Inc.	Health Care	Savant, Tejas	Dec	547.34	23.1 e	22.3 e	4.3% e	0.3% e	22%	35%	-6%	739.00	513.00	670.00	670.00
TMUS.O	T-Mobile US, Inc.	Communication Services	Flannery, Simon	Dec	142.45	20.2 e	14.4 e	7.7% e	NA	23%	61%	-26%	230.00	105.00	175.00	175.00
UNH.N	UnitedHealth Group Inc	Health Care	Wright, Erin	Dec	469.50	18.6 e	14.0 e	6.3% e	1.4% e	25%	94%	-47%	909.00	249.00	587.00	587.00
V.N	Visa Inc.	Information Technology	Faucette, James	Sep	217.39	25.4 e	20.7 e	3.8% e	0.8% e	32%	61%	-32%	351.00	148.00	288.00	288.00
YUM.N	Yum! Brands, Inc.	Consumer Discretionary	Harbour, Brian	Dec	126.85	25.2 e	19.9 e	3.7% e	1.9% e	22%	41%	-16%	179.00	107.00	155.00	155.00

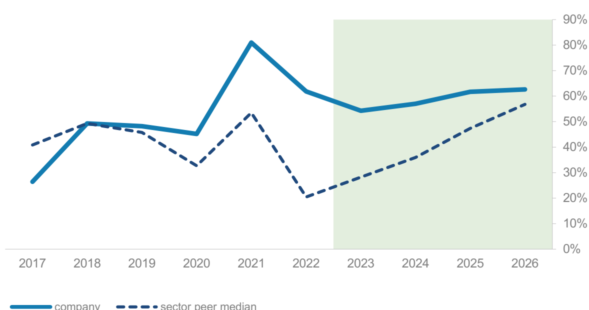
Source: Morgan Stanley Research ModelWare.
Share prices as of March 17th.
Metrics are calculated using the "for consensus' methodology.
NA = Not Applicable; NM = Not Meaningful
For PLD.N: Numbers in P/E column represent P/FFO per share.
For PLD.N: Numbers in EV/EBIT column represent EV/EBITDA.

Alphabet (GOOGL)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
Alphabet Inc. vs. Sector Peers

	Alphabet Inc. percentile range (vs. sector peers)					Peer median
	0–20	20–40	40–60	60–80	80–100	
Growth						
EPS '23-'25 CAGR					21.0%	20.3%
Sales '23-'25 CAGR	14.6%					18.2%
Returns						
RNOA					54.3%	28.2%
EBIT margin				27.4%		7.8%
Valuation						
P/E	18.0x					18.3x
EV/EBIT	13.4x					16.9x
P/FCF		9.7x				23.5x
Leverage						
Net Debt/EBITDA						

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Internet Industry View: In-Line

Brian Nowak

The Digital Transformation continues to accelerate, AI is the next internet opportunity, and there is still a large addressable market... Behavior shifts seen throughout the pandemic impacted the way consumers live and businesses communicate with consumers and we continue to see an acceleration of this digital transformation in the post-Covid era. This, combined with the AI opportunity, highlights the importance of some of GOOGL's key products and investment areas.

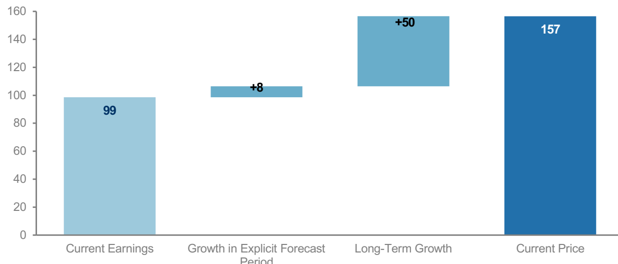
... And GOOGL's product portfolio is well positioned to benefit from key trends. We continue to see runway from here for GOOGL's core product offering including Search, YouTube and Cloud and highlight the significant incremental Search revenue and share price potential as we see next generations of AI-driven search leading to higher relevancy/completeness, a further collapsing of the shopping funnel (people effectively visiting fewer sites) and higher user conversion. For YouTube, the platform continues to evolve with Shorts and we see generative AI (content creation tools) and improved algorithm matching & advertising attribution as a potential tailwind to engagement and revenue growth. Lastly, on Cloud, we see next generation AI tools driving more durable multi-year public cloud adoption.

We also remain confident GOOGL faces more manageable incremental costs. We see management focused on durably reengineering the cost base and see GOOGL working to improve AI compute cost efficiency at the infrastructure, model and application layer, which builds confidence that margins won't compress over the long term.

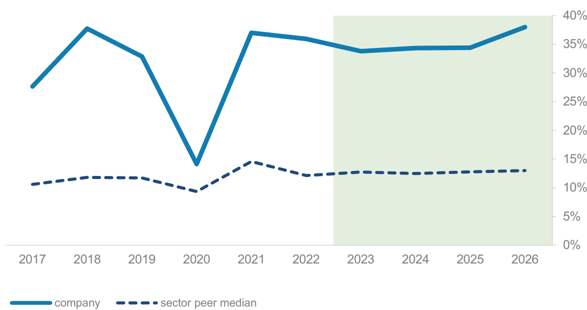
Risk Reward: Overweight / Price Target $135

American Express (AXP)

Value of Growth Analysis



Return on Equity (ROE) Analysis



Sector Yardsticks

Sector Yardsticks
American Express Company vs. Sector Peers

	American Express Company percentile range (vs. sector peers) 0 20 40 60 80 100	Peer median
Growth		
EPS '23-'25 CAGR	15.2%	8.0%
Sales '23-'25 CAGR	9.2%	3.8%
Returns		
ROE	33.8%	12.7%
Valuation		
P/E	13.8x	7.6x
P/B	4.3x	0.8x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e. (P/B could be NM) Source: Morgan Stanley Research

Consumer Finance Industry View: Cautious

Betsy Graseck

Higher credit-quality skew offers downside protection from consumer credit deterioration. AXP's card book is high quality, with subprime loans estimated to be 5-10% of loans. We are more concerned about credit deterioration at more heavily subprime-exposed card issuers, including Underweight-rated COF (31%) and SYF (26%). As broader consumer credit quality continues worsening from here amid declining savings and high inflation, we expect AXP's card losses and delinquencies to only *return* to pre-Covid levels by YE24, while card peers are expected to overshoot.

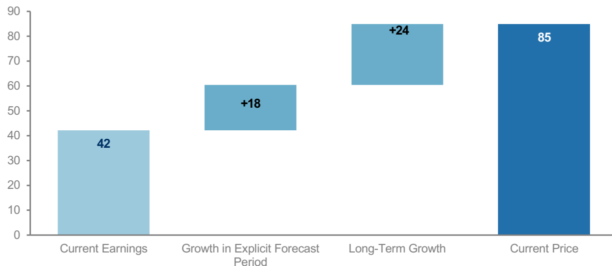
Post-Covid recovery tailwinds provide opportunity for sustainable topline growth... AXP is well positioned to benefit from ongoing recovery in corporate T&E spend - still running 34% below 2019 levels. On the consumer end, we think AXP's higher-income cardholders will have an easier time managing this high-inflationary period. We see this card spend resiliency translating to a ~16% 2022-2025 CAGR in AXP's card fee income, and strong loan growth from its customer base. We expect this to drive a ~11% 2022-2025 CAGR in total revenues.

...creating a path for positive operating leverage. Bears typically point to Amex's lack of operating leverage, weighed down by high variable expenses (i.e. card member rewards). Our forecast for slowing growth in marketing and cardmember acquisition expenses should help drive ~430bp operating leverage growth in 2023, its highest in over a decade and a standout among card peers. We expect positive operating leverage growth can continue into 2024 as well, even as top-line growth cools.

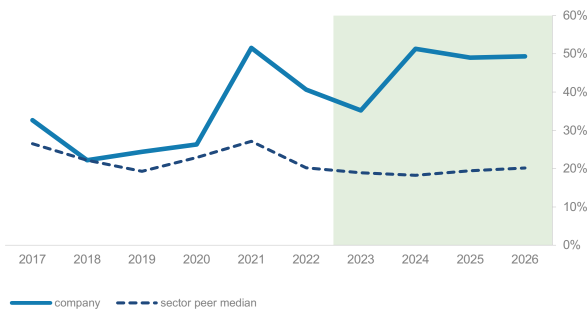
Risk Reward: Overweight / Price Target $186

Blackstone (BX)

Value of Growth Analysis



Return on Equity (ROE) Analysis



Sector Yardsticks

Sector Yardsticks
Blackstone Inc. vs. Sector Peers

	Blackstone Inc. percentile range (vs. sector peers) 0 – 100	Peer median
Growth		
EPS '23-'25 CAGR	31.5%	14.0%
Sales '23-'25 CAGR	30.3%	9.1%
Returns		
ROE	35.2%	18.9%
Valuation		
P/E	20.9x	16.1x
P/B	11.4x	2.6x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e. (P/B could be NM) Source: Morgan Stanley Research

Brokers, Asset Managers & Exchanges Ind. View: In-Line

Michael Cyprys

Blackstone is a leading private markets franchise with a best-in-class brand, unrivalled product capabilities, and distribution breadth, in our view. BX is increasingly focused on expanding its TAM, extending into new verticals, and boosting margins. This should drive sustainable growth higher than the market appreciates and support a premium valuation.

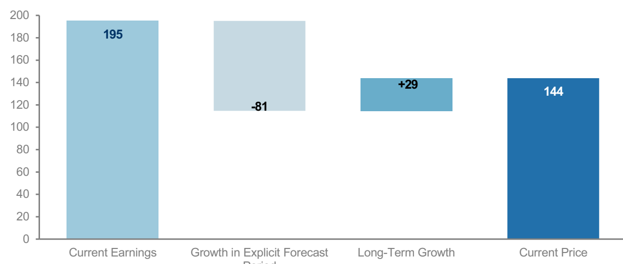
Compelling secular grower at an attractive price. We see powerful secular tailwinds driving increased allocations to private markets including a ~$70tr retail TAM that's still in early days of penetration, a large opportunity set of investable assets, new growth engines, and private markets' strong track record versus public markets through cycles. Against this backdrop, we view BX as best positioned to capture outsized share of a growing pie, particularly as asset-owner clients and retail platforms target a narrower set of managers with a breadth of offerings. In retail, BX is furthest along with a first-mover advantage and industry-leading distribution capabilities.

Focus on firepower and staying power. BX's long-duration locked-up capital, ramping permanent capital initiatives, and over $187b of dry powder should enable the company to patiently wait for opportunities to time exits and deployment. We believe this yields significant firepower and staying power, which, combined with an enviable brand, should enable BX to navigate through cycles and support the next wave of growth.

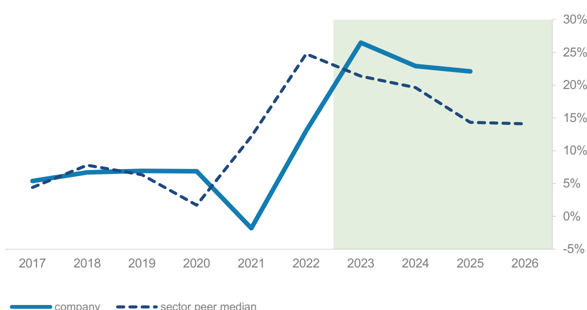
Risk Reward: Overweight / Price Target $115

Cheniere Energy (LNG)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
Cheniere Energy Inc vs. Sector Peers

	Cheniere Energy Inc percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '23-'25 CAGR				-9.3%		-15.2%
Sales '23-'25 CAGR					7.6%	-6.0%
Returns						
RNOA					26.5%	21.4%
EBIT margin			36.9%			32.8%
Valuation						
P/E				7.5x		6.6x
EV/EBIT					7.6x	5.3x
P/FCF					26.3x	6.8x
Leverage						
Net Debt/EBITDA					2.2x	0.5x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Diversified Natural Gas Industry View: In-Line

Devin McDermott

LNG market leader. Cheniere remains the dominant LNG player in the US and in our view is structurally advantaged compared to smaller, independent US peers given its scale, low-cost expansion opportunities, and existing platform of resilient cash flows backed by long-term contracts. ~95% of the company's liquefaction capacity is sold under fixed-price sales agreements through 2030, supporting stable cash flow regardless of where LNG prices go (weighted average contract life of 17 years).

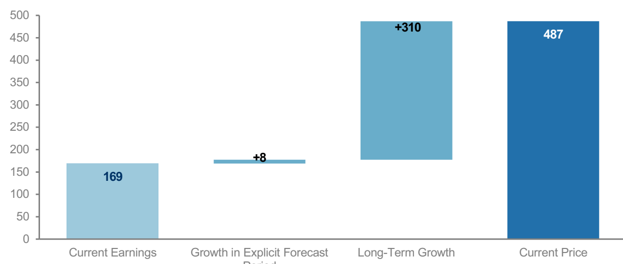
Pathways for growth. Cheniere is currently progressing its brownfield expansion project at Corpus Christi Stage 3, set to come online in late 2025. Longer term, the company plans to formally file with FERC for Corpus Christi Midscale Trains 8 & 9 by the end of 1Q and recently pre-filed for a large 20+ mtpa expansion at Sabine Pass. Together with additional growth projects, Cheniere sees the potential for ~90 mtpa of total liquefaction capacity (from 45 mtpa today).

Attractive macro supports strong FCF and shareholder returns. Cheniere is well-positioned to benefit from the ongoing tightness in global gas markets through strong marketing margins and additional growth opportunities. At $10 JKM (Asia LNG), $3.25 Henry Hub, and conservative $3.50 marketing margins, we forecast run-rate distributable cash flow of ~$24/sh, a 16% yield on the current stock price. Over the next several years, resilient FCF should support declining leverage, growing dividends, and share repurchases. Cheniere's attractive shareholder returns strategy includes 10% annual dividend growth and MSe $2B of share buybacks in 2023.

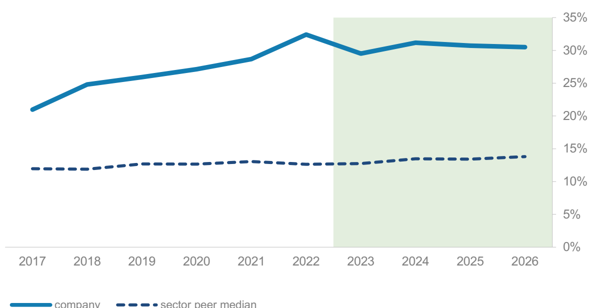
Risk Reward: Overweight / Price Target $189

Costco Wholesale (COST)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
Costco Wholesale Corp vs. Sector Peers

	Costco Wholesale Corp percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '23-'25 CAGR		7.8%				9.3%
Sales '23-'25 CAGR				6.2%		4.1%
Returns						
RNOA					29.5%	12.7%
EBIT margin		3.5%				4.0%
Valuation						
P/E					34.2x	19.3x
EV/EBIT					25.1x	16.9x
P/FCF				31.7x		19.5x
Leverage						
Net Debt/EBITDA						1.7x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Hardline/Broadline/Food Retail Industry View: In-Line

Simeon Gutman

One of the best companies in all of Retail, in our view. COST's differentiated value proposition and the stability of the club model set it apart. In contrast to most retailers, customers pay COST for the right to shop in their stores. That this model continues to work is borne out by strong membership renewal rates (average of ~89% over the past 5 years, and a record ~90.5% in the most recent quarter). We believe Covid, inflationary pressures on the consumer, and gas price volatility have strengthened COST's value proposition , with likely higher membership stickiness and spending consolidation at COST relative to past years.

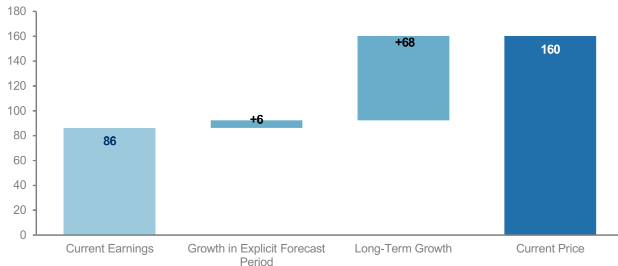
Private label offers differentiation. We estimate COST's private label brand, Kirkland Signature, has grown to >$75b in revenue (~35% of total net sales in F22). This lifts COST's margins (we estimate PL products carry a 1,000 bps gross margin advantage over branded ones) and protects its position as a retailer with products found nowhere else.

3 long-term drivers for the stock: (1) We model a a ~2.5% CAGR in the club base through F25; we see room for at least 100 more US warehouses (~10 years of domestic growth), plus >50 potential international warehouses over the long term. (2) SSS should continue to grow at a mid-single digit rate, driven by merchandising, consumables, and eComm. (3) Membership & fee income growth should continue at ~3%/~8% respectively (their 5-yr averages) as consumers look to access COST's unique value proposition; we see potential upside as we believe a membership fee increase likely in the next 12 months. Alongside stable/steady EBIT margins, this algo drives our LT outlook for mid- to- high-single-digit sales, EBIT, and EPS growth.

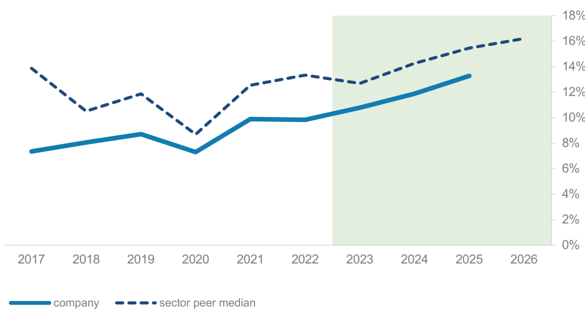
Risk Reward: Overweight / Price Target $520

Eaton (ETN)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
Eaton Corporation PLC vs. Sector Peers

	Eaton Corporation PLC					Peer
	percentile range (vs. sector peers)					median
Growth	0–20	20–40	40–60	60–80	80–100	
EPS '23-'25 CAGR					10.4%	9.7%
Sales '23-'25 CAGR					6.2%	4.6%
Returns						
RNOA	10.8%					12.7%
EBIT margin					18.7%	17.2%
Valuation						
P/E			19.2x			19.4x
EV/EBIT					16.7x	14.7x
P/FCF			17.2x			19.7x
Leverage						
Net Debt/EBITDA			1.3x			1.3x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Multi-Industry Industry View: In-Line

Joshua Pokrzywinski

We believe ETN is uniquely positioned with best-in-class near-term visibility and long-term growth.

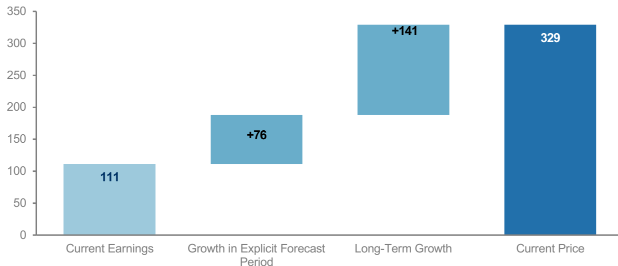
Backlog visibility isn't just high, it's exceptional. ETN's backlog within its electrical businesses is running 2x higher than "normal" levels, with close to 60% NTM revenue coverage. We estimate that orders can decline by 20%+ and still enter 2025 with above normal visibility / backlog coverage. With attention turning to the cycle amid a weakening macro backdrop, we expect ETN's backlog coverage supports better near-term visibility than most while also having some of the best long-term growth drivers in our coverage.

The multiple vectors of energy transition go through electrical equipment, which are key pieces of infrastructure to enable electrification. ETN is ~70% electrical exposed with leading positions in the US low- and medium-voltage electrical market (~30%+ market share). This is a consolidated industry with strong pricing power using proven technology required to connect and control all manner of electric sources, uses, and storage. Electrification is already showing up in macro data with electrical growth accelerating to MSD+ over the past two years and should drive continued M-HSD growth through 2030. Stimulus, nearshoring, and backlog conversion likely drive this closer to HSD over the next few years.

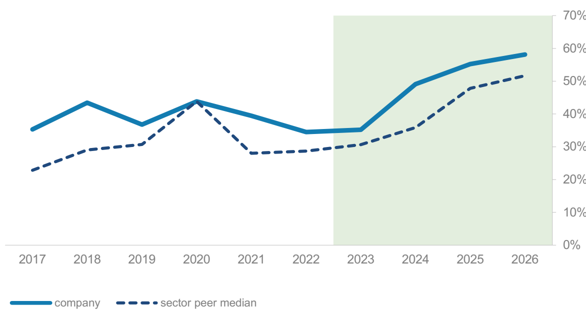
Risk Reward: Overweight / Price Target $200

Eli Lilly (LLY)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
Eli Lilly & Co. vs. Sector Peers

	Eli Lilly & Co. percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '23-'25 CAGR					33.8%	0.1%
Sales '23-'25 CAGR					16.9%	2.9%
Returns						
RNOA				35.2%		30.6%
EBIT margin			30.5%			30.3%
Valuation						
P/E					36.8x	11.9x
EV/EBIT					33.2x	11.9x
P/FCF					47.7x	7.0x
Leverage						
Net Debt/EBITDA			1.3x			1.2x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Major Pharmaceuticals Industry View: In-Line

Terence Flynn

Robust new product cycles and limited exposure to loss of exclusivity (LOE) favorably position LLY within US Pharma. The company could potentially launch five new products across four large therapeutic areas by the end of 2023, including obesity. Trulicity goes off patent later this decade, but the company should be able to transition the franchise to Mounjaro.

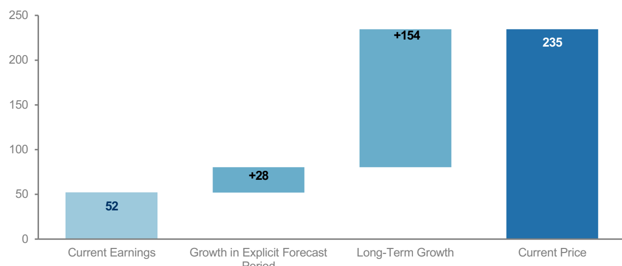
We expect Mounjaro uptake in type-2 diabetes (T2D) and expected approval in obesity to drive top-line growth and margin expansion through the decade. LLY is positioned to grow revenue at a 10% CAGR from '23-'30 which should expand margins from 28% in 2022 to >40% in 2025+, driving EPS growth of 18%, on our estimates. This compares favorably to the rest of the peer group.

LLY is well positioned to capture significant share in a new therapeutic TAM. LLY currently splits the GLP-1 injectable T2D market with Novo (covered by Mark Purcell). Both companies are competitively positioned to retain a duopoly as this category of drugs moves into obesity, which we project as a $50bn+ opportunity. Mounjaro's efficacy profile in both T2D and obesity will make it a share gainer in the expanding class. LLY is also developing additional drugs for T2D and obesity, which position the company to remain competitive in these areas longer term.

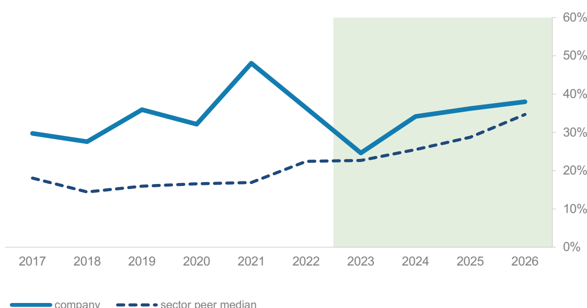
Risk Reward: Overweight / Price Target $444

Estée Lauder (EL)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks

Estee Lauder Companies Inc vs. Sector Peers

	Estee Lauder Companies Inc percentile range (vs. sector peers)					Peer median
Growth	0–20	20–40	40–60	60–80	80–100	
EPS '23-'25 CAGR					31.1%	14.3%
Sales '23-'25 CAGR				10.5%		5.2%
Returns						
RNOA				24.6%		22.7%
EBIT margin	15.3%					19.2%
Valuation						
P/E					45.5x	29.1x
EV/EBIT					33.1x	21.1x
P/FCF					66.8x	31.4x
Leverage						
Net Debt/EBITDA	0.7x					1.5x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Household & Personal Care Industry View: In-Line

Dara Mohsenian

EL is well positioned in prestige beauty with strong category and geographic growth trends and mix shifts, opportunities for meaningful margin expansion, and best-in-class management, in our view.

Post-Covid Beauty Rebound. We are confident in the sustainability of the post-Covid beauty rebound, with long-term prestige beauty category growth in the HSD% range, with continued premiumization, a growing middle class emerging in emerging markets, a larger pie post-Covid for travel retail with Hainan development, and continued e-commerce strength with technological advancements.

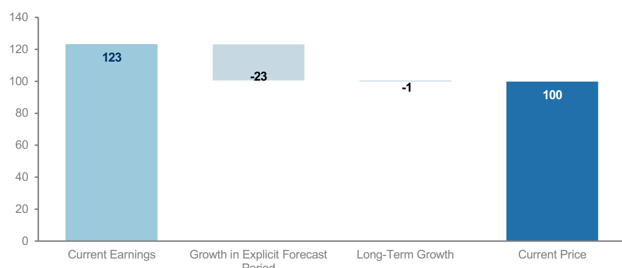
Growth and Margin Expansion Opportunity. EL has benefited from a long-term mix shift to higher growth and higher margin areas (China, travel retail, e-commerce, and skin care) that have been artificially depressed by Covid and should re-emerge as a key investment thesis recovering to its LT growth algorithm.

Consensus Assumes L-MSD% Growth. Consensus only forecasts 3-4% revenue CAGR's vs. a pre-Covid period looking out over the next two years, seemingly too low if China fully recovers relative to outsized MSD-HSD LT prestige beauty category growth (to which EL is 100% exposed).

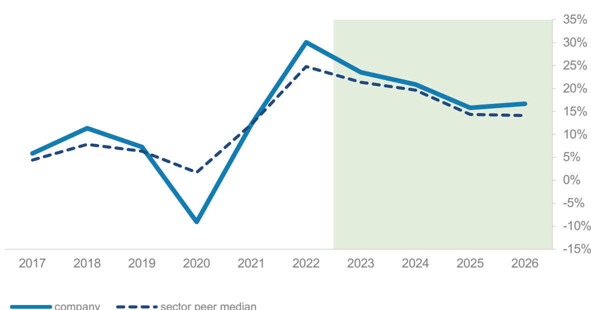
Risk Reward: Overweight / Price Target $281

Exxon Mobil (XOM)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
Exxon Mobil Corporation vs. Sector Peers

	Exxon Mobil Corporation percentile range (vs. sector peers)					Peer median
Growth	0–20	20–40	40–60	60–80	80–100	
EPS '23-'25 CAGR			-15.6%			-15.2%
Sales '23-'25 CAGR				-3.4%		-6.0%
Returns						
RNOA				23.5%		21.4%
EBIT margin	15.6%					32.8%
Valuation						
P/E					9.9x	6.6x
EV/EBIT				6.4x		5.3x
P/FCF					9.3x	6.8x
Leverage						
Net Debt/EBITDA						0.5x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Integrated Energy Industry View: Attractive

Devin McDermott

Competitive positioning. XOM's strong FCF profile is supported by an advantaged portfolio of high return growth projects. These investments, coupled with ongoing execution on >$9B of cost cuts ($6.9B to date with an additional ~$2B through 2023), should allow the company to double earnings capacity by 2027 (vs. 2019). Robust FCF supports ~300% dividend cover in 2023 and ~$35B of share repurchases across 2023-24. In total, XOM offers a ~8% 2023 shareholder return yield (~$85/bbl WTI), with the potential for further upside.

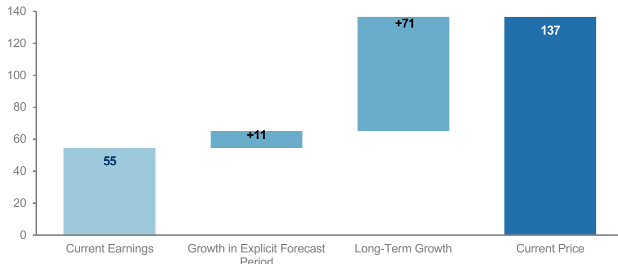
Low-carbon opportunities. XOM is also an industry leader in decarbonization, focusing on technologies that are synergistic with core competencies including carbon capture & storage (CCS), hydrogen, and renewable fuels. The company has cumulatively captured more carbon than any company (40% of the global total) and has a near-term pipeline of ~20 CCS projects. Moreover, XOM is advancing a blue hydrogen plant in the US Gulf Coast and targeting ~200 kbbl/d of lower-emission fuels production by 2030. We forecast a 15% average return on capital will deliver ~$4B in low-carbon earnings by 2030 and ~$8B by 2035.

Sustainable long-term growth. XOM's diversified business, resilient FCF, and strong balance sheet support continued investments in high return opportunities across the Energy value chain. In addition to benefitting from what we expect to be a multi-year period of strong oil & gas prices, XOM's proactive (but still returns focused) decarbonization strategy should help de-risk longer term cash flows and mitigate terminal value uncertainty – offsetting the impact of longer-term erosion in oil & gas demand.

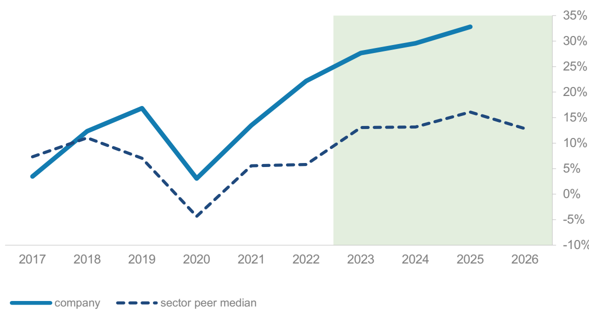
Risk Reward: Overweight / Price Target $114

Hilton Worldwide (HLT)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
Hilton Worldwide Holdings Inc vs. Sector Peers

	Hilton Worldwide Holdings Inc percentile range (vs. sector peers)					Peer median
	0–20	20–40	40–60	60–80	80–100	
Growth						
EPS '23-'25 CAGR		14.3%				17.9%
Sales '23-'25 CAGR			5.8%			6.2%
Returns						
RNOA					27.7%	13.1%
EBIT margin					25.6%	16.4%
Valuation						
P/E			21.9x			20.9x
EV/EBIT			16.6x			16.6x
P/FCF				20.2x		16.1x
Leverage						
Net Debt/EBITDA			2.7x			2.7x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Gaming & Lodging Industry View: In-Line

Stephen Grambling, CFA

HLT is poised to benefit from secular growth of travel and gain share all within a capital-light model with a best in-class management team.

Beneficiary of long-term demand trends: We expect lodging to continue to grow above GDP: (1) rising consumer incomes = higher share of spend on travel; and (2) shifts from industrial to service based economies = higher corporate travel. HLT's scale also creates more efficient distribution and higher revenue for hotel owners, enabling share gains from independent and sub-scale peers.

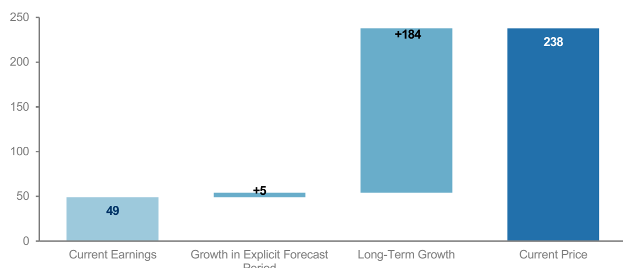
HLT's asset light model limits volatility, maximizes ROIC. HLT generates >85% of EBITDA from fees, which are largely tied to the top line of hotels rather than profitability. When combined with limited G&A and capex, HLT has highly visible fundamentals. During the pandemic, EBITDA declined less than revenue and FCF stayed positive.

FCF Compounder: With one of the highest in-construction pipelines (18% growth vs. current), we expect the company to deliver 5%+ growth over the next three years (with new "Spark" brand offering potential for 6-7%). Therefore, even if RevPAR growth is modest, room growth should propel EPS at 20%+ and FCF 15%+ from 2022-24. Note the company's growth and margins are understated in our metrics table due to reimbursed revenue. Excluding these, HLT's 2020-2025 revenue CAGR is 24% and 2023/2025 EBIT margins are 61%/64%, pushing the company even further up the rankings.

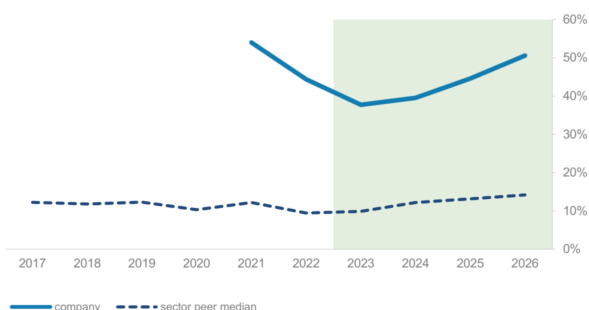
Risk Reward: Overweight / Price Target $168

Intuitive Surgical (ISRG)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
Intuitive Surgical Inc. vs. Sector Peers

	Intuitive Surgical Inc. percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '23-'25 CAGR			12.8%			12.8%
Sales '23-'25 CAGR					11.3%	6.2%
Returns						
RNOA					37.7%	9.9%
EBIT margin					33.4%	24.2%
Valuation						
P/E					45.1x	25.2x
EV/EBIT					35.2x	19.6x
P/FCF					47.9x	32.3x
Leverage						
Net Debt/EBITDA						1.4x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Medical Technology Industry View: In-Line

Drew Ranieri

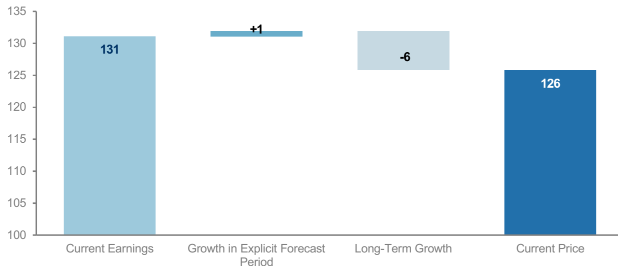
One of the most innovative companies in Medical Technology. We see Intuitive as a best-in-class enabler of minimally invasive surgical innovation with a broad portfolio of robotic surgery technology. Intuitive has the dominant market position, though competitive systems are in early innings. Still, we believe Intuitive's substantial global installed base (>7,500 systems), large active (and trained) surgeon base, and building ecosystem will entrench the company's dominant position for years to come. We see potentially open-ended opportunities to augment robotic systems by developing digital capabilities and data insights, which could further enhance Intuitive's offering and likely provide stickier market share positioning.

A large and growing TAM that we think remains under-penetrated. Worldwide robotics surgery penetration stands at 5-6% after multiple decades on the market. Over 1.8mn procedures were performed worldwide on Intuitive's da Vinci systems in '22 ('17-'22 CAGR: 16%). Based on existing clinical applications and geographies, the company has line of sight to 6mn procedures, with opportunities to 4x the market size with new technologies, indications and entry into new geographies over time. Newer platforms (Ion and SP) open access to additional markets and procedures. Hospitals are increasingly establishing robotics programs, and standardizing practices around Intuitive's technology and building additional robotic procedure capacity.

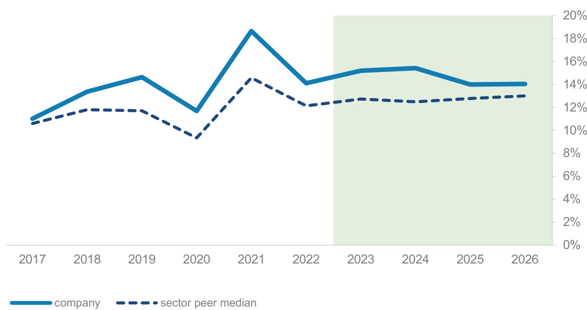
Risk Reward: Overweight / Price Target $265

JPMorgan Chase & Co (JPM)

Value of Growth Analysis



Return on Equity (ROE) Analysis



Sector Yardsticks

Sector Yardsticks
JPMorgan Chase & Co vs. Sector Peers

	JPMorgan Chase & Co percentile range (vs. sector peers)					Peer median
Growth	0–20	20–40	40–60	60–80	80–100	
EPS '23-'25 CAGR		5.2%				8.0%
Sales '23-'25 CAGR			3.3%			3.8%
Returns						
ROE				15.2%		12.7%
Valuation						
P/E				8.7x		7.6x
P/B					1.3x	0.8x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e. (P/B could be NM) Source: Morgan Stanley Research

Large Cap Banks Industry View: In-Line

Betsy Graseck

Positive operating leverage in 2023. We model JPM delivering 400bps of positive operating leverage in 2023, with revenues up 12% and expenses up 8% y/y. This is a significant inflection from the last two years of negative operating leverage at JPM (-510bps in 2021, -40bps in 2022). In addition, while Jamie Dimon has made it clear that he believes in investing through a cycle as reflected in JPM's industry leading $14.1B tech budget, we think risks around expenses skew positively. Areas to pull back on expenses include low priority projects, market-related revenues in the custody business, opportunities to flex on mortgage-related expenses, and revenue-related comp in the Corporate & Institutional Bank.

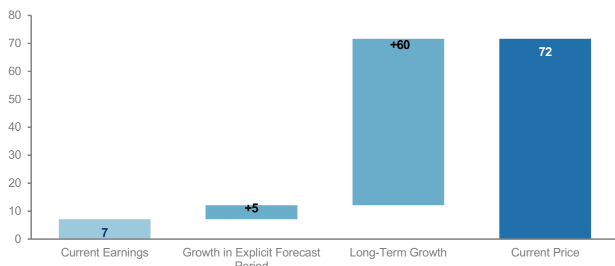
Consumer & Community Bank (CCB) is taking deposit share. JPM is taking deposit share across the country with median deposit share up 1.5% across the Top 50 US MSAs over the last 5 years and median 3.1% across the Top 25 US MSAs. This reflects JPM executing on 500 new branch builds since 2017 including 300 branches in new markets including Boston, DC, Philadelphia, Minneapolis, and Baltimore, with the goal of becoming a scale player (we think ~10% or greater share) in each of these markets. We think JPM should continue to take share as 20% of its branch network is <10 years old, significantly higher than industry average of 12% and big bank average of mid-single digits.

JPM de-rates less than peers in recessions. Looking at the last four recessions (2001-02, 2008-10, 2016 recession fears, 2020), JPM's NTM Consensus PE troughed at 7.5-9.2x, above BAC's trough range of 6.1-9.2x and Citi's of 4.3-7.5x.

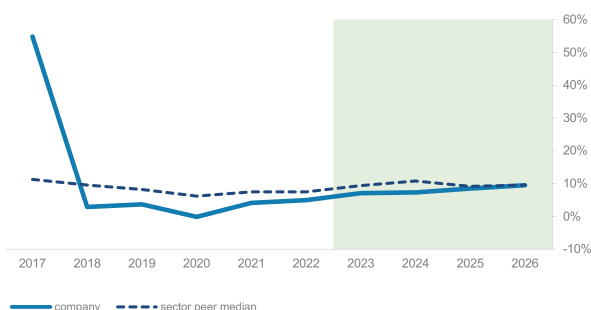
Risk Reward: Overweight / Price Target $173

Liberty Formula One (FWONK)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Liberty Formula One vs. Sector Peers

	Liberty Formula One					Peer
	percentile range (vs. sector peers)					median
Growth	0 – 20	20 – 40	40 – 60	60 – 80	80 – 100	
EPS '23-'25 CAGR					69.2%	13.0%
Sales '23-'25 CAGR				6.6%		5.2%
Returns						
RNOA			7.1%			9.4%
EBIT margin			10.1%			10.0%
Valuation						
P/E					130.3x	17.6x
EV/EBIT					53.6x	18.2x
P/FCF					98.7x	14.2x
Leverage						
Net Debt/EBITDA		1.5x				3.7x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Media & Entertainment Industry View: In-Line

Benjamin Swinburne

Investment Outlook: Our Overweight on FWONK reflects (1) our bullish view on sports as an asset class, (2) F1's rising global popularity and its ability to monetize that growth, and (3) a preference for contracted revenues (defensive growth) given the current macroeconomic uncertainty.

F1 continued to see its popularity rise in 2022, especially in the US: The bull case on F1, in our view, includes exponentially increasing its earnings in the world's largest media market - the US - over the long term. Despite cord-cutting lowering pay-TV distribution by 15-20% since 2017, F1 linear ratings in the US were up ~15% on a CAGR basis during this time frame and nearly 20% in '22 vs. '21. Globally, F1 saw a cumulative TV audience of 1.54bn or 70mm per race on average last year.

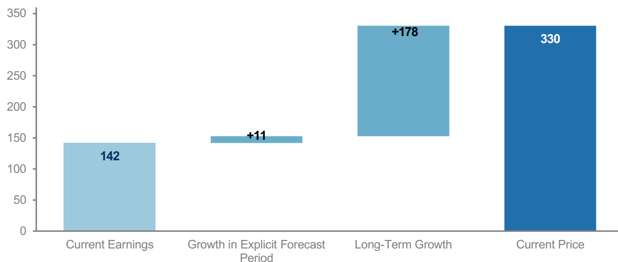
We see premium multiple on FWONK shares persisting: F1's growth outlook (10-15% adjusted EBITDA CAGR through 2026, on our estimates), contracted nature of its business model (its primary F1 revenues are almost entirely built on multi-year contracts), and its high FCF conversion (~80% of adjusted F1 OpCo EBITDA converted to FCF in '22) support a premium multiple.

Las Vegas Grand Prix a potential catalyst for shares: As the promoter in Las Vegas, F1's economics are different relative to the rest of the calendar. While we do not see Liberty pursuing a promoter position across the entire F1 race calendar, we see both direct and indirect benefits to F1's earnings power from success in Vegas.

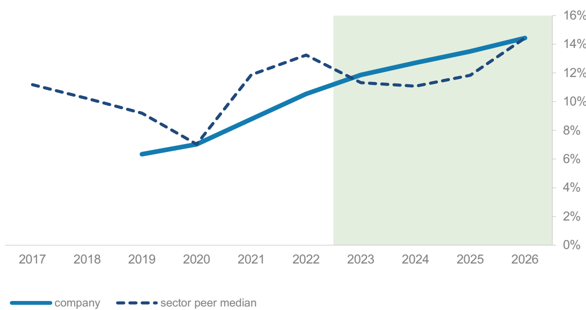
Risk Reward: Overweight / Price Target $80

Linde (LIN)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
Linde PLC vs. Sector Peers

	Linde PLC percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '23-'25 CAGR		11.7%				14.1%
Sales '23-'25 CAGR				4.5%		3.3%
Returns						
RNOA			11.9%			11.3%
EBIT margin					25.3%	15.8%
Valuation						
P/E					24.7x	13.6x
EV/EBIT					20.8x	12.0x
P/FCF					32.2x	15.6x
Leverage						
Net Debt/EBITDA		1.3x				1.7x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Chemicals Industry View: Attractive

Vincent Andrews

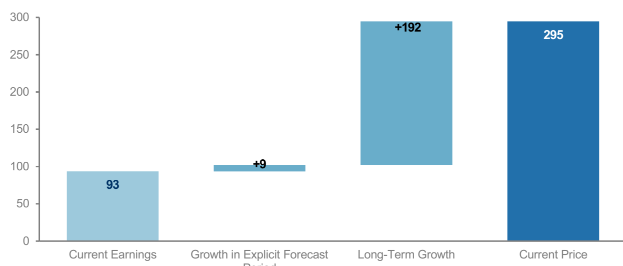
We view Linde as an underappreciated self-help story, backstopped by visible EPS growth, pricing power, and balance sheet flexibility. Linde stands to benefit from regional margin parity, with an opportunity to close the ~200 bps margin gap between its APAC/EMEA and Americas segments (see HERE for more details). While parity is partially macro-dependent, Linde maintains control over most key margin improvement initiatives, including pricing and cost optimization. The company also continues to see margin expansion in the Americas, thereby raising the bar for APAC/EMEA parity. To that end, we believe self-help is further supported by: (1) visible EPS growth tied to take-or-pay capex; (2) through-the-cycle pricing power; and (3) an under-levered balance sheet (2023e net debt-to-EBITDA of 1.2x) positioned for deployment into growth capex and/or share repurchases.

Linde also screens as an attractive ESG 'Rate of Change' opportunity. In terms of green/blue hydrogen, Linde has been less active to date compared to peer Air Products from a large-scale project perspective. We believe this translates to higher marginal utility for the next dollar of green/blue capex announced at Linde versus Air Products. Likewise, we expect any Linde project to come with a more traditional industrial gas onsite structure (i.e., take or pay, automatic cost pass through, et al.) as was the case in its $1.8B long-term hydrogen/ASU agreement with OCI.

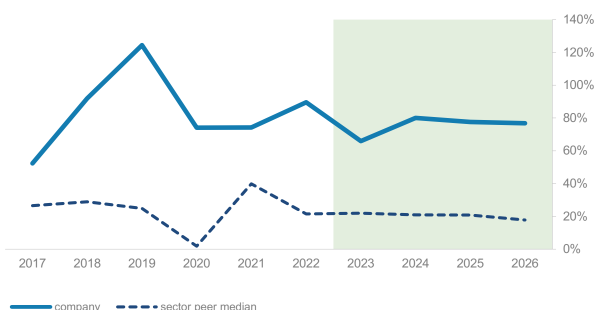
Risk Reward: Overweight / Price Target $365

Lululemon Athletica (LULU)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
Lululemon Athletica Inc. vs. Sector Peers

	Lululemon Athletica Inc.						Peer median
	percentile range (vs. sector peers)						
Growth	0	20	40	60	80	100	
EPS '23-'25 CAGR					16.1%		10.6%
Sales '23-'25 CAGR						13.1%	4.1%
Returns							
RNOA						65.9%	21.9%
EBIT margin						23.1%	7.4%
Valuation							
P/E						25.0x	12.3x
EV/EBIT						16.2x	9.0x
P/FCF					22.7x		16.2x
Leverage							
Net Debt/EBITDA							1.2x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Specialty Retail Industry View: In-Line

Alex Straton

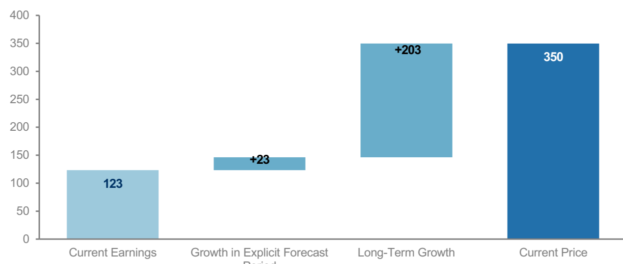
LULU stands out for its balanced LT growth oppty, best-in-class margin profile, higher-income customer exposure, & thoughtful int'l strategy. 4 key attributes set LULU apart from Softlines peers. (1) Consistent, outsized top-line & market share growth potential fueled by global geographical expansion, broader & deeper category penetration, and best-in-class product innovation. (2) Materially higher OM than peers (e.g., low-20s%+ vs. peer avg. MSD-HSD%) due to higher prices, largely core assortment mix, and low relative discounting activity. (3) Greater higher-income customer skew, providing some insulation from the turbulent macro. (4) Thoughtful approach to int'l expansion (including localized assortments, robust testing, & methodical store growth, among others).

Top-line growth should outpace already-strong athleisure growth, & profitability should consistently improve over time. The activewear market is expected to grow at a +MSD-HSD CAGR thru '26e, above apparel at +LSD. Importantly, not only is LULU likely to benefit from this industry growth, we believe its unique & innovative product assortment & category expansion is likely to generate ongoing market share gains, enabling an above market-growth rate MT. Further, we expect consistent EBIT dollar growth as LULU scales across geographies & categories. Taken together, LULU's ability to take share in an attractive category, coupled with EBIT dollar growth, likely enables consistent EPS growth & pushes shares higher LT.

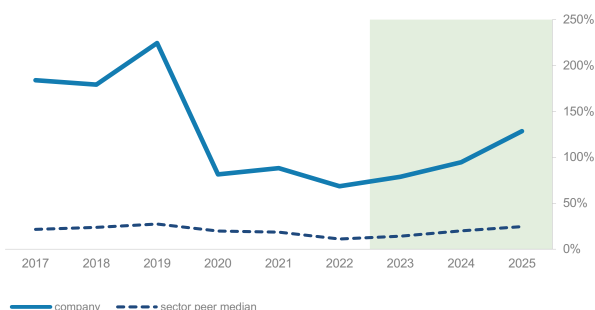
Risk Reward: Overweight / Price Target $387

MasterCard (MA)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
MasterCard Inc vs. Sector Peers

	MasterCard Inc percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '23-'25 CAGR				16.6%		14.6%
Sales '23-'25 CAGR				13.3%		11.0%
Returns						
RNOA					78.9%	14.1%
EBIT margin					58.1%	19.0%
Valuation						
P/E				28.5x		17.0x
EV/EBIT				22.8x		15.9x
P/FCF				26.7x		16.9x
Leverage						
Net Debt/EBITDA	0.1x					1.3x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Payments and Processing Industry View: Attractive

James Faucette

One of the best business models we've seen: As the second-largest global card network (behind Visa), MA looks well positioned to benefit from market share gains in particular regions and consumer spending trends, which have been resilient even through economic cycles. Similar to V, MA should benefit from the return of cross-border travel, which is still below the pre-Covid trend-line and comes with higher-than-average yields.

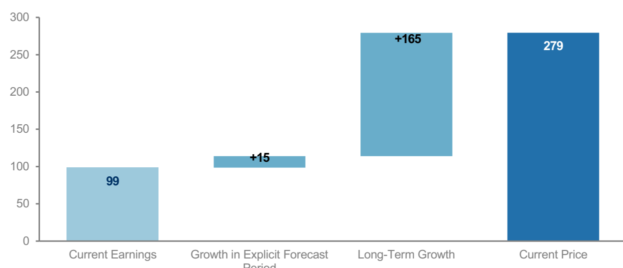
New fintech players are enabling, not disrupting, Networks: Given MA's largely fixed cost base, it sees declining cost per transaction and steady uplift in operating margins as volume grows. This, along with its enhanced fraud capabilities and stickiness of consumer behavior, makes the threat of disruption from new entrants fairly low, in our view. Many of the new payment players tend to partner with MasterCard and operate on its rails, given MasterCard's competitive cost structure and moat. These partnerships with newcomers should continue to expand Mastercard's TAM in the P2P and B2B payment markets.

B2B supports longer term opportunity: MasterCard is likely to be a key player in the evolution of B2B payments over the next 3-10 years. Its solutions position it well to capture the ~$40T of B2B flows (e.g. corporate cards, virtual cards, cross-border, accounts payable) as 45% of B2B payments are still made via checks. Many of these opportunities also can use card products and solutions that exist today, and do not require significant incremental investment.

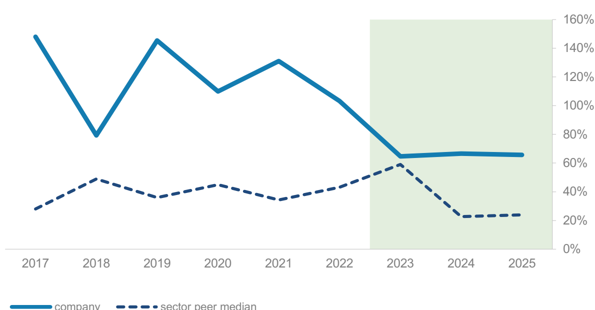
Risk Reward: Overweight / Price Target $438

Microsoft (MSFT)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Microsoft vs. Sector Peers

	Microsoft percentile range (vs. sector peers) 0–20	20–40	40–60	60–80	80–100	Peer median
Growth						
EPS '23-'25 CAGR	18.4%					23.8%
Sales '23-'25 CAGR			14.6%			14.6%
Returns						
RNOA				64.7%		59.0%
EBIT margin				41.5%		27.0%
Valuation						
P/E		29.6x				30.1x
EV/EBIT			23.1x			23.1x
P/FCF				31.4x		29.7x
Leverage						
Net Debt/EBITDA						1.5x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Software Industry View: Attractive

Keith Weiss

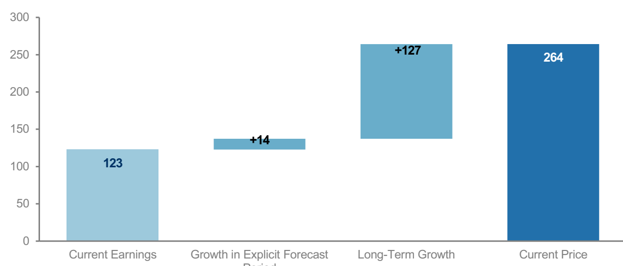
Exceptional secular growth exposure… Durability of Growth, Margin Expansion, and Capital Return. With over 70% of revenue derived from Commercial businesses and over 95% of Commercial revenue being recurring in nature (mostly ratable subscription revenue or term-based licenses associated with multi-year Enterprise License Agreements), growth is driven by strong commercial demand pools, powered by strong secular tailwinds and accompanied by attractive unit economics. According to our CIO Survey, CIOs expect Microsoft to be the leading budget share gainer as workloads shift to the cloud over the next 3 years. Strong survey results are a reflection of Microsoft's strong positioning as a beneficiary of key secular trends and CIO priorities across AI/ML, Cloud, Security, Analytics and Digital Transformation. The accelerating pace of innovation around adding AI-powered capabilities into the portfolio with announcements including Microsoft 365 Copilot, Github Copilot, New Bing, and more, support momentum across the business and buttress durable growth.

…at an exceptional price. With a medium-term view, double-digit top-line growth (supported by secular tailwinds, easing compares, price increases, & waning FX headwinds) outpaces COGS growth to deliver mid-teens gross profit dollar growth. Prudent opex spend and focus on efficiency at scale drives mid-to-high teens operating income growth. Share repurchases and a dividend yield push the total return profile to high-teens. With Microsoft on a path to deliver 5 quarters of accelerating EPS growth from the Q2 trough, we see an opportunity to accumulate MSFT shares, which are significantly undervalued at current levels, in our view.

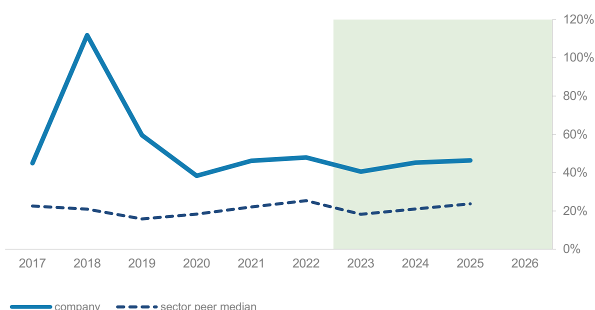
Risk Reward: Overweight / Price Target $307

Motorola Solutions (MSI)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
Motorola Solutions Inc vs. Sector Peers

	Motorola Solutions Inc percentile range (vs. sector peers)					Peer median
	0–20	20–40	40–60	60–80	80–100	
Growth						
EPS '23-'25 CAGR			11.4%			11.6%
Sales '23-'25 CAGR			5.5%			5.3%
Returns						
RNOA					40.5%	18.2%
EBIT margin				27.1%		17.8%
Valuation						
P/E					23.7x	16.2x
EV/EBIT					19.3x	12.6x
P/FCF				27.7x		21.8x
Leverage						
Net Debt/EBITDA				1.4x		1.3x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Telecom & Networking Equip. Industry View: Cautious

Meta Marshall

Dominant radio market position. MSI has a dominant market share in radios, a defensive exposure given the segment's ties to government spending. Land mobile radio (LMR) accounts for the vast majority of revenue (~77% in 2022) and MSI maintains ~40%+ share of this ~$11bn+ mission-critical TAM. With the LMR / push-to-talk market expected to grow for several years and high barriers to entry given LMR's mission-critical nature, we believe MSI has an attractive competitive position in its core market. We also favor MSI's ability to optimize around this market position (i.e., consistently expanding operating margins Y/Y) and generate cash to fund share repurchases / dividends.

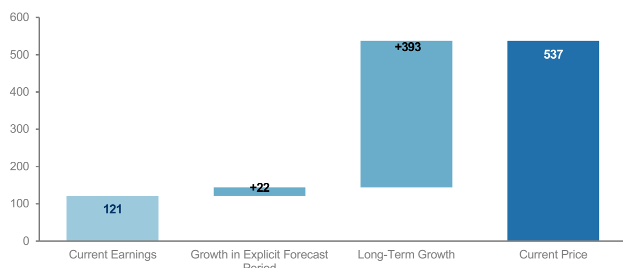
TAM expansion opportunities bolster competitive positioning. We see a path toward long-term re-rating via MSI leveraging cash flow generation and its footprint in LMR/command center into winning in next-generation public safety tech, including video security. We estimate end markets within Video are higher-growth than LMR and should accelerate MSI's growth as the segment becomes larger in the overall revenue mix (with tailwinds from displacement of offerings from China). Advancements within LMR (APX Next portfolio) should create holistic secular tailwinds for growth. Overall, more investment in security by schools, public places, and workplaces broaden investment in MSI products.

Compelling longer-term software story offers additional upside. MSI has invested in a more robust command center software platform to build on its leading share in 911. Increasing use of analytics software for video surveillance use cases should support the software portfolio.

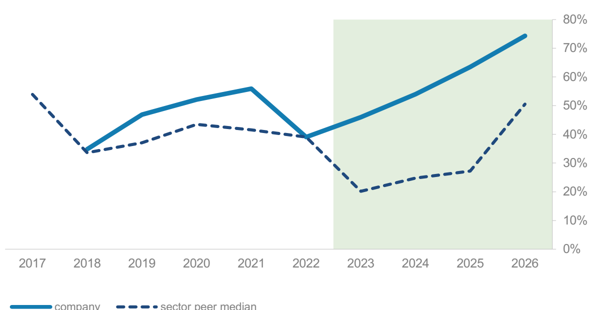
Risk Reward: Equal-Weight / Price Target $260

MSCI Inc. (MSCI)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
MSCI Inc. vs. Sector Peers

	MSCI Inc. percentile range (vs. sector peers) (0–100)	Peer median
Growth		
EPS '23-'25 CAGR	17.6%	13.7%
Sales '23-'25 CAGR	12.1%	7.0%
Returns		
RNOA	46.0%	20.2%
Valuation		
P/E	40.3x	31.7x
P/B		9.5x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e. (P/B could be NM) Source: Morgan Stanley Research

Business & Education Services Industry View: In-Line

Toni Kaplan

Strong competitive advantages. MSCI is a leading provider of benchmark indices, portfolio analytics, and ESG research for investment institutions. MSCI has an attractive business model with a scalable infrastructure, recurring revenue, and a strong brand name. MSCI's business model is extremely scalable – once an index product is developed, little further capital investment is required. As a result, MSCI has the highest EBITDA margins within our subscription-based Information Services coverage (60% vs. 43% avg), and we expect margins to expand going forward driven by operational leverage and strong expense management.

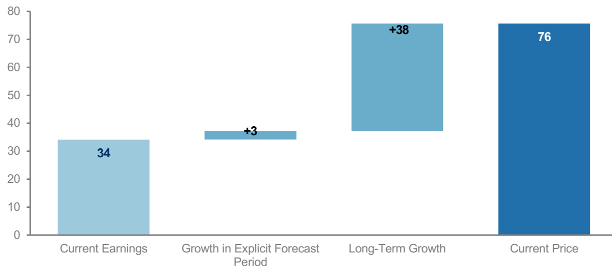
MSCI operates in the highly attractive index industry with "must-have" data sets, pricing power, and operational leverage. The index industry benefits from a network effect and high switching costs. Once a fund manager selects an MSCI index to use as a benchmark, it is disruptive to change it, which promotes stickiness. Strong brand recognition, large ecosystems surrounding flagship indices, and frictions make it difficult or costly for asset managers to switch benchmarks. Strong tailwinds in the index industry and execution have led to the highest expected organic growth rate in '24 within our coverage (12% vs. 7.5%)

MSCI is the leading provider of ESG/climate content and indices with significant market share. MSCI benefits from having a first mover advantage and continues to invest heavily in the space to maintain its leading position. MSCI has 55% share of US ESG ETFs vs. 13% for the next largest competitor due to its significant head start.

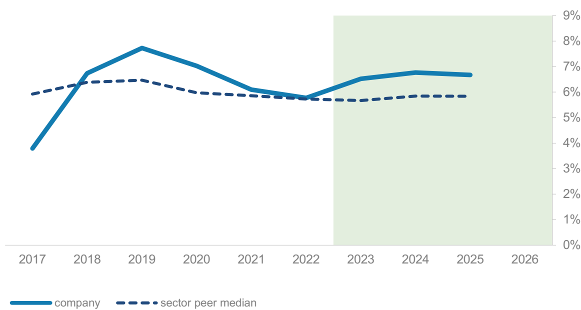
Risk Reward: Overweight / Price Target $543

NextEra Energy (NEE)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
NextEra Energy Inc vs. Sector Peers

	NextEra Energy Inc					Peer
	percentile range (vs. sector peers)					median
Growth	0–20	20–40	40–60	60–80	80–100	
EPS '23-'25 CAGR					9.2%	7.3%
Sales '23-'25 CAGR					6.7%	3.3%
Returns						
RNOA				6.5%		5.7%
EBIT margin					32.2%	20.9%
Valuation						
P/E					24.4x	17.4x
EV/EBIT					26.3x	19.6x
P/FCF		(38.1x)				(23.5x)
Leverage						
Net Debt/EBITDA		5.1x				5.5x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Diversified Utilities / IPPs Industry View: Attractive

David Arcaro

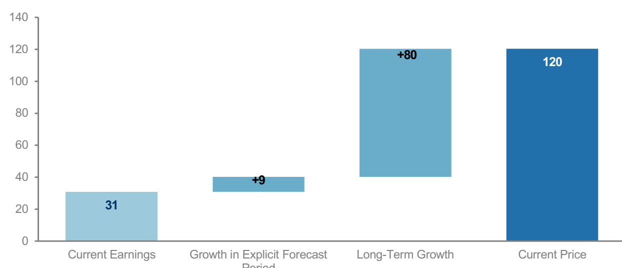
Highly differentiated, sustainable competitive position in the renewables market. This US developer of wind, solar, and storage assets benefits from economies of scale that offer the company buying power in the supply chain, improved transmission interconnect positions, operating cost efficiency, and robust access to debt and tax equity capital. NEE has a very long track record in the industry, building long-term customer relationships with repeat buyers and a reputation for strong execution. The company's large existing asset base offers improved market and geographic knowledge of wind/solar resources. And the next key area for differentiation is in software and analytics, with internal software capabilities to integrate complex storage assets, offer sophisticated predictive maintenance, optimize site design and power output, and map out customer generation portfolios and decarbonization targets to better tailor products.

New growth opportunities with attractive returns and wide moats stemming from the Inflation Reduction Act. Storage, green hydrogen, and renewables repowering sre set to benefit from new lucrative tax credits that unlock large growth opportunities for new infrastructure. We see prospects for NextEra to be among the leaders in building out these new markets and capturing attractive low-risk returns.

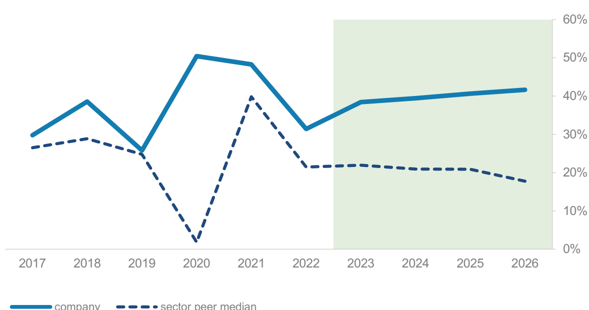
Risk Reward: Overweight / Price Target $97

Nike (NKE)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
Nike Inc. vs. Sector Peers

	Nike Inc. percentile range (vs. sector peers) 0 – 100	Peer median
Growth		
EPS '23-'25 CAGR	28.1%	10.6%
Sales '23-'25 CAGR	11.1%	4.1%
Returns		
RNOA	38.4%	21.9%
EBIT margin	13.1%	7.4%
Valuation		
P/E	29.7x	12.3x
EV/EBIT	24.5x	9.0x
P/FCF	44.2x	16.2x
Leverage		
Net Debt/EBITDA	0.0x	1.2x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Branded Apparel & Footwear Industry View: In-Line

Alex Straton

NKE's DTC acceleration makes it one of the best-positioned Softlines companies in the post-Covid era, in our view. While we believe NKE remains in the early stages of its transition from a traditional wholesaler to a digitally-led direct to consumer (DTC) business, it has made impressive progress so far, increasing DTC penetration by ~10 pts since 2019 (from 30% to ~40%). This DTC-first approach enhances NKE's LT market share, revenue, margin, & EPS growth opportunity, making it one of the highest-growth consumer names as well as one of the few to benefit from the move to digital (~23% of '22 revenue vs. NKE's ~40% LT target).

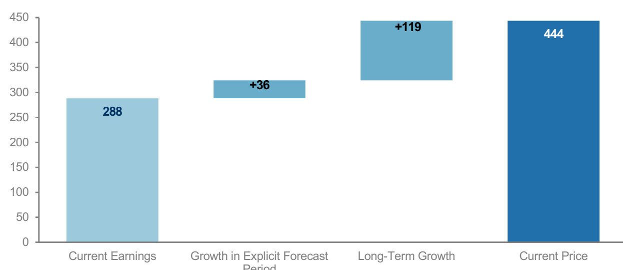
The shift to DTC should materially improve NKE's financial profile. Given its strong commitment to a DTC-first approach, we expect NKE to continue to allocate its best SKUs and focus its marketing efforts on DTC, leading the most profitable customers to the channel. Therefore, not only do we expect the DTC strategy to drive revenue growth as NKE recognizes the full wholesale to retail markup for itself, but it should also improve profitability. We estimate a ~10 point uplift to GM, which mgmt. expects to flow through to the operating profit line as the business scales.

Strong activewear growth & favorable secular trends should further support NKE's LT growth. Additionally, trends such as (1) the activewear market outgrowing general footwear & apparel, (2) increased consumer focus on health & wellness, & (3) the ongoing casualization of fashion, should further bolster NKE's LT growth opportunity.

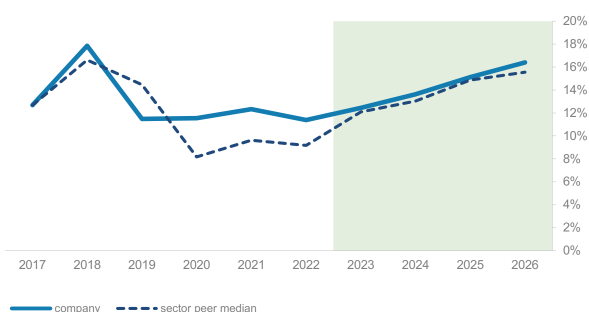
Risk Reward: Overweight / Price Target $140

Northrop Grumman (NOC)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks

Northrop Grumman Corp. vs. Sector Peers

	Northrop Grumman Corp.					Peer
	percentile range (vs. sector peers)					median
Growth	0–20	20–40	40–60	60–80	80–100	
EPS '23-'25 CAGR				17.3%		13.6%
Sales '23-'25 CAGR				8.7%		7.0%
Returns						
RNOA			12.4%			12.1%
EBIT margin		10.6%				12.8%
Valuation						
P/E			20.0x			20.0x
EV/EBIT			18.9x			18.2x
P/FCF					34.2x	24.7x
Leverage						
Net Debt/EBITDA			1.9x			1.8x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Defense Industry View: Attractive

Kristine Liwag

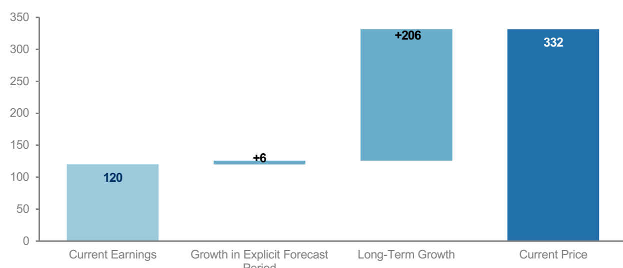
A winning portfolio. Northrop Grumman (NOC) went from Dark Horse of the Prime pack to the long-term Defense name to own after winning two generational programs – the B-21 bomber and Sentinel intercontinental ballistic missile. These two franchises offer decades of earnings visibility for NOC and will serve as the backbone of the US nuclear deterrent. The 2018 acquisition of Orbital ATK also helped NOC round out an end-to-end Space portfolio (~35% of total revenue) that is unrivaled, in our view, by peers. With its B-21 and Sentinel wins and continued Pentagon investment in the Space domain (~20% YoY growth in FY24 budget request / ~22% trailing 5-year CAGR), we see NOC's portfolio particularly well-aligned to current and emerging Defense Department priorities (for more, see Generational Investments in Defense). We see Defense in the early inning of an upcycle fueled by a deteriorating global security environment and pressing Pentagon modernization requirements – both of which should provide strong tailwinds for NOC's business.

Peer-high growth. NOC's strong portfolio alignment, in our view, should drive peer-high growth through 2025 (~7.5% CAGR 2022-25e). We also expect a ~29% FCF CAGR though 2025 as Section 174 headwinds ease and capex moderates after an elevated investment period driven by significant new program wins. NOC plans to return >100% of FCF to shareholders in 2023 and we expect the management team – which we view as best-in-class – to continue to run its shareholder-friendly capital deployment playbook at least through mid-decade.

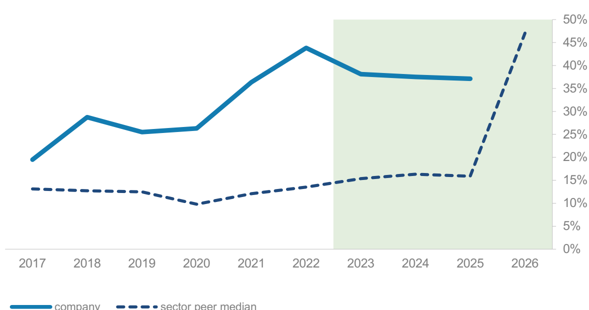
Risk Reward: Overweight / Price Target $601

Old Dominion Freight Line (ODFL)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
Old Dominion Freight Line Inc vs. Sector Peers

	Old Dominion Freight Line Inc percentile range (vs. sector peers) (0–100)	Peer median
Growth		
EPS '23-'25 CAGR	9.4%	10.5%
Sales '23-'25 CAGR	6.5%	4.5%
Returns		
RNOA	38.1%	15.4%
EBIT margin	29.0%	10.0%
Valuation		
P/E	27.2x	14.8x
EV/EBIT	19.8x	12.2x
P/FCF	40.3x	14.6x
Leverage		
Net Debt/EBITDA		1.7x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Freight Transportation Industry View: In-Line

Ravi Shanker

We view ODFL as a best-in-class franchise across Freight Transportation, if not a wider sample set. Very few companies can match ODFL's 15+ year track record of growing revenues at a 10%+ CAGR (4x+ GDP), while improving margins 1500 bp (with op. margins now topping 30%) to drive EPS growth CAGR of 20%+. The stock has been one of the best performing in the S&P 500 in that period (up over 3,600% since 2008), as the company solidifies its position amongst investors as a "core holding".

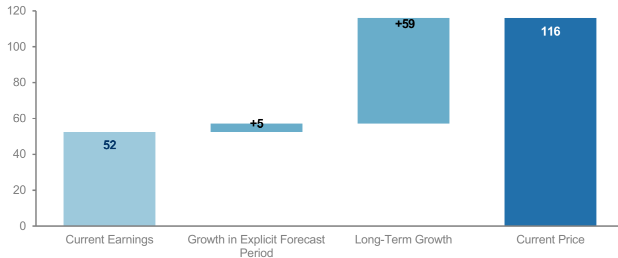
The best house on a rapidly improving block. While the cyclicality and industry dynamics of Trucking may initially give some investors pause, we have been structurally positive on Trucking for a while. A number of structural catalysts including new regulations in the last 5 years (that have introduced barriers to entry in the business for the first time), share gains from other transportation modes (supply chains getting shorter, faster, and tighter favors Trucking), industry consolidation as well as long term favorable structural shifts like nearshoring, electrification, and autonomous trucking, are driving compounding earnings growth in the space. As the best house on this block, ODFL is very well positioned, in our view.

Deeply Entrenched Strengths. ODFL's key strengths include being in the sweet spot of scale, owning more of their real estate footprint than peers, investing in growth through the cycle and exceptional management, that drives ODFL's best-in-class track record.

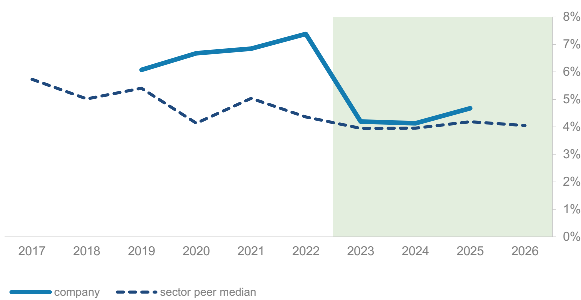
Risk Reward: Overweight / Price Target $340

Prologis (PLD)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
Prologis, Inc. vs. Sector Peers

	Prologis, Inc. percentile range (vs. sector peers)					Peer median
	0–20	20–40	40–60	60–80	80–100	
Growth						
FFO '23-'25 CAGR					5.6%	2.5%
Sales '23-'25 CAGR					7.6%	2.8%
Returns						
RNOA			4.2%			3.9%
EBIT margin				40.1%		33.1%
Valuation						
P/FFO					21.2x	11.6x
EV/EBITDA					22.0x	14.7x
P/FCF						12.4x
Leverage						
Net Debt/EBITDA	3.8x					5.7x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Real Estate Investment Trusts Industry View: In-Line

Ronald Kamdem

Low industrial availability rates combined with below-market rents within the portfolio creates LT visibility in PLD's internal growth algorithm. Leases within the portfolio remain ~70% below market rents, driving our expectation for average internal growth of 8-10% over the next several years. In addition, PLD's favorable balance sheet (~5x debt to EBITDA, ~20% leverage ratio) and strategic capital business provide the company with a sustainable path for external growth.

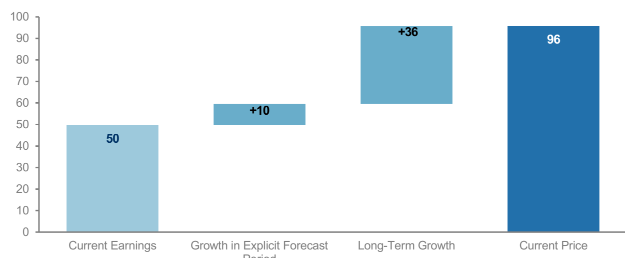
Due to high barriers to supply and elevated e-commerce demand, PLD's markets are at record lows in terms of available space. The company's markets have experienced between 15-30% market rent growth since '18, creating a favorable spread between embedded rents within PLD's portfolio current market rents (lease terms are ~7 years, and only 10-15% of leases are rolled to market per year). This backdrop has led to runway of "built in" same store growth over the next several years and we expect 8-10% internal NOI growth through '26.

Favorable supply/demand dynamics should insulate PLD from a slowing macro backdrop. While we expect the pace of market rent growth to slow as inventory growth slows and speculative supply (future deliveries that are not pre-leased) comes online, our analysis suggests rent growth can remain positive in the intermediate term, as both slowing demand and record supply pipelines may not be enough to push availability rates close to the 8-9% range where market rent growth historically turned negative (see Exhibit 1 of Dissecting Risks to Fundamentals: Resume PLD at OW; Top Pick).

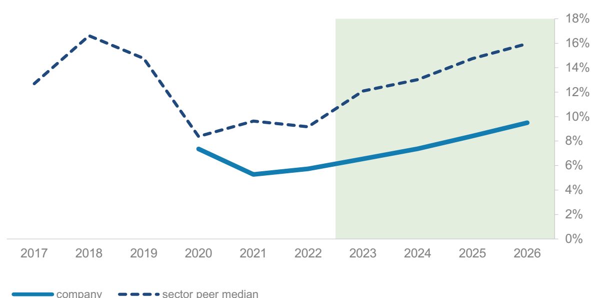
Risk Reward: Overweight / Price Target $128

Raytheon Technologies (RTX)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
Raytheon Technologies Corp vs. Sector Peers

	Raytheon Technologies Corp percentile range (vs. sector peers)					Peer median
Growth	0–20	20–40	40–60	60–80	80–100	
EPS '23-'25 CAGR				19.1%		13.1%
Sales '23-'25 CAGR			7.7%			7.4%
Returns						
RNOA		6.5%				12.1%
EBIT margin			12.1%			12.5%
Valuation						
P/E			19.1x			20.0x
EV/EBIT				19.1x		18.2x
P/FCF				29.1x		22.9x
Leverage						
Net Debt/EBITDA				2.3x		1.8x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Defense Industry View: Attractive

Kristine Liwag

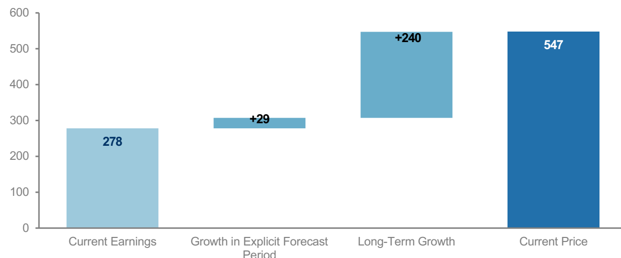
We continue to see RTX as a value play given exposure to aerospace and defense end markets, along with strong FCF generation. We see the commercial aero business benefitting from China re-opening and OEM rate ramps. China re-opening should help to drive the next leg up for commercial aftermarket at Collins as Asia/Pacific air traffic remained at ~57% of pre-Covid levels in December. OEM rate ramps for the Boeing 737 MAX from ~31/month today to ~50/month in 2025/2026 and A320neo family from ~45-50/month today to ~65/month by the end of 2024 will help drive further upside for commercial aerospace.

RTX's defense business should benefit from a strong macro backdrop for defense spending as a heightened geopolitical climate persists (see more in Generational Investments in Defense). We see higher defense spending providing a multi-year growth outlook, though see this growth taking time to materialize and acknowledge short-term supply chain disruptions. RTX is positioned well for growing areas of the Defense Budget as highlighted by the recent FY24 budget request featuring Space funding request up 20% YoY and Missiles/Missile funding request up 23% YoY. We also see RTX benefitting from the Air Force's decision to upgrade existing F-35 engines instead of developing a new engine. We estimate the company will generate $7.9bn in 2023, $7.2bn in 2024, and $9.4bn in 2025**.**

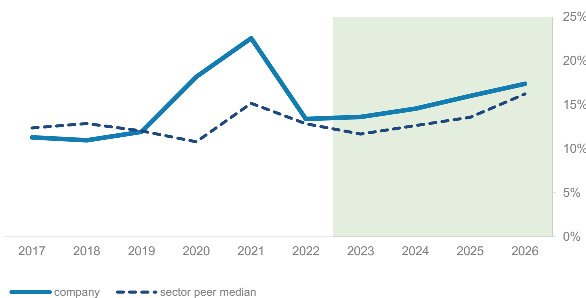
Risk Reward: Overweight / Price Target $115

Thermo Fisher Scientific (TMO)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks

Thermo Fisher Scientific Inc. vs. Sector Peers

	Thermo Fisher Scientific Inc. percentile range (vs. sector peers)					Peer median
Growth	0–20	20–40	40–60	60–80	80–100	
EPS '23-'25 CAGR		13.1%				16.2%
Sales '23-'25 CAGR			8.0%			9.0%
Returns						
RNOA					13.6%	11.7%
EBIT margin			23.9%			23.9%
Valuation						
P/E			23.1x			21.8x
EV/EBIT				22.3x		21.4x
P/FCF			23.9x			22.5x
Leverage						
Net Debt/EBITDA				1.9x		1.4x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Life Science Tools & Diagnostics Industry View: In-Line

Tejas Savant

Best-in-class resiliency. We like TMO for the breadth of its portfolio, diversified customer base and scale - attributes that we believe will prove advantageous in navigating a potential recession, in addition to inflationary pressures and geopolitical uncertainty. TMO's favorable end market exposure, PPI business system, and track record of consistent all-weather execution underpin our confidence in management's long-term core organic growth target of 7-9% with mid-teens EPS growth.

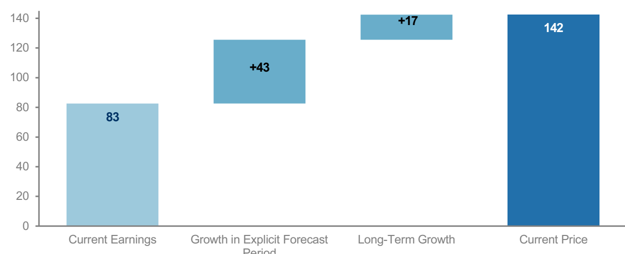
Well positioned to outpace peers and end markets. As a global life sciences leader, TMO serves ~$165B in addressable markets (across diagnostics & healthcare, industrial/applied, academic/government, and pharma & biotech) that have historically grown in the 4-6% range annually. We firmly believe in TMO's ability to outgrow its peers and end markets driven by a combination of increasing exposure to high-growth verticals (specifically biopharma, following the Patheon/PPD acquisitions) and geographies (including China), as well as a relentless focus on share gains fueled by the breadth, depth and reach of their portfolio.

Embedded M&A optionality. The thesis comes with embedded capital deployment optionality, given management's successful track record of consolidation in the fragmented tools sector and their commitment to M&A (with plans to deploy $48B in capital from 2023-25, with 65% allocated to acquisitions).

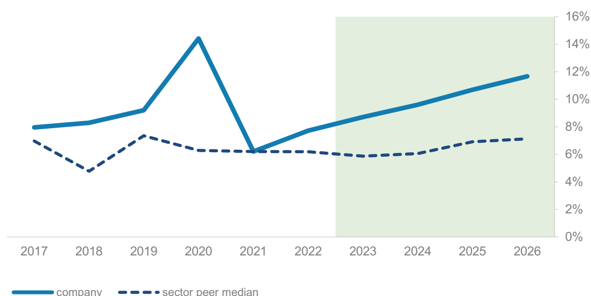
Risk Reward: Overweight / Price Target $670

T-Mobile US (TMUS)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
T-Mobile US, Inc. vs. Sector Peers

	T-Mobile US, Inc.					Peer
	percentile range (vs. sector peers)					median
Growth	0–20	20–40	40–60	60–80	80–100	
EPS '23-'25 CAGR					30.6%	4.2%
Sales '23-'25 CAGR					4.1%	1.1%
Returns						
RNOA					8.7%	5.9%
EBIT margin				20.4%		17.1%
Valuation						
P/E			20.2x			21.2x
EV/EBIT		14.4x				17.5x
P/FCF			13.0x			13.0x
Leverage						
Net Debt/EBITDA	2.5x					3.5x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Telecom Services Industry View: In-Line

Simon Flannery

5G leadership and differentiated growth drivers supporting share gains and category expansion. T-Mobile's Sprint merger drove early success in 5G with the company able to sustain a 1-2 year lead vs peers, while also benefiting from ~25% more low/mid-band spectrum. The company has a clear growth strategy predicated primarily on share gains in key, underpenetrated markets: small town/rural, enterprise and top 100 market network seekers. Additionally, T-Mobile has led the way on fixed wireless home broadband as a brand new market opportunity for the company that's expected to scale to 7-8mn subs by 2025.

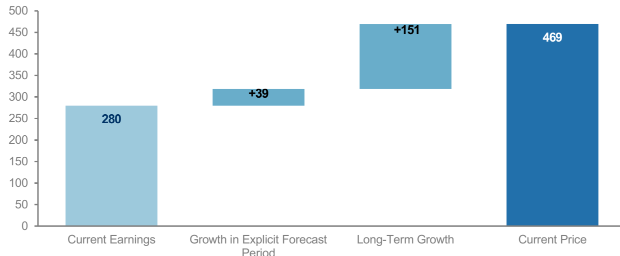
Ongoing margin upside on remaining synergy realization and scale gains. The integration of the Sprint merger will be complete in 2023 with management recently raising synergy guidance to $8bn from $7.5bn previously and $6bn realized in 2022. Ongoing synergy realization and growing scale should allow the company to expand EBITDA service margins to the mid-50% range over the long-term vs. 43% in 2022.

Just starting to execute on up to $60bn in buybacks through 2025. The company has laid out plans to repurchase up to $60bn in stock through 2025. With leverage already close to the mid-2x target range, an initial $14bn program was authorized in late-2022, and we're expecting a new, larger program to be announced later this year.

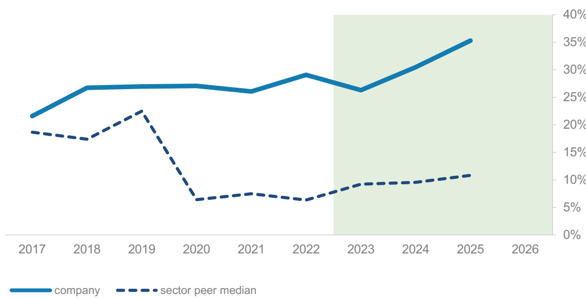
Risk Reward: Overweight / Price Target $175

UnitedHealth Group (UNH)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
UnitedHealth Group Inc vs. Sector Peers

	UnitedHealth Group Inc percentile range (vs. sector peers)					Peer median
Growth	0–20	20–40	40–60	60–80	80–100	
EPS '23-'25 CAGR				13.1%		12.9%
Sales '23-'25 CAGR		8.4%				9.8%
Returns						
RNOA				26.3%		9.2%
EBIT margin					8.9%	4.6%
Valuation						
P/E					18.4x	13.4x
EV/EBIT					13.8x	9.3x
P/FCF			15.5x			13.2x
Leverage						
Net Debt/EBITDA		0.5x				1.1x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Healthcare Facilities & Managed Care Ind. View: In-Line

Erin Wright

Healthcare's Most Scaled and Diversified Services Company. In health insurance, scale is king and UNH is the largest national insurer with top-three position in almost all insurance end markets. We believe the resiliency of UNH's diversified businesses across Health Insurance (UnitedHealthcare), Health Provider (OptumCare), Pharmacy Services (OptumRx), and Data Analytics (OptumInsight) will generate long-term double-digit earnings growth with high visibility as a best-in-class vertically integrated MCO in a highly defensive category.

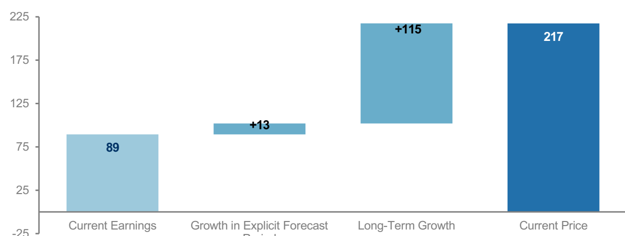
Leader in the Medicare Advantage Segment. With preeminent Medicare Advantage (MA) market share nearing ~30% and MA growing mid to high-single-digits annually, UNH should continue to benefit from its superior competitive positioning, well-poised to drive outsized MA membership growth and thereby outperformance in 2023 and beyond.

The Unique Optum Opportunity. UNH's diversified Optum unit (57% of revenue, 49% of operating profit) sets it apart from peers. This segment delivers high-quality growth across inherently less regulated areas of healthcare and is the conduit that cultivates synergies across its diverse businesses. More specifically, its OptumCare sub-segment has expanded its reach into value-based care, while OptumRx (a top-3 PBM) will benefit from near-term biosimilar launches, and OptumInsight is a leader in healthcare technology assets / data analytics, growing double-digits. We expect it to bolster its offerings over time, further supplementing growth.

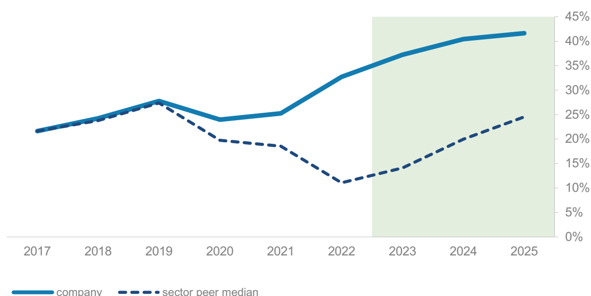
Risk Reward: Overweight / Price Target $587

Visa (V)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
Visa Inc. vs. Sector Peers

	Visa Inc. percentile range (vs. sector peers)					Peer median
Growth	0 20	40	60	80	100	
EPS '23-'25 CAGR			14.4%			14.6%
Sales '23-'25 CAGR			11.9%			11.0%
Returns						
RNOA					37.2%	14.1%
EBIT margin					67.9%	19.0%
Valuation						
P/E				25.4x		17.0x
EV/EBIT				20.7x		15.9x
P/FCF				26.5x		16.9x
Leverage						
Net Debt/EBITDA						1.3x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Payments and Processing Industry View: Attractive

James Faucette

Visa runs one of the largest centralized consumer payment networks globally, processing US$11.6tr in payment volume in FY22. Its low-cost network, significant operating leverage, and enhanced risk detection capabilities enable it to price competitively vs. new players. Visa is presently operating at scale, while any new market entrants need to balance low network fees (to remain attractive vs. Visa) with continued investment in their platforms, high costs to drive user growth, and limited benefits of scale. This means that Visa is well-positioned to underprice competitors to retain market share globally, if needed.

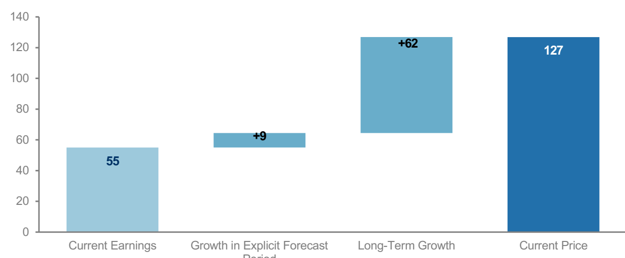
Visa is a key beneficiary of resilient consumer spending worldwide and consumers' / businesses' ongoing migration from cash to electronic payments. Trends toward digitization (mCommerce and eCommerce) over the years should allow Visa's growth to outpace overall global PCE growth, while any rise in inflation should serve as a tailwind to the business, with ~2/3 of revenue tied to volumes. The continuation of the cross-border-travel recovery, still not beyond the pre-Covid trend line, will also benefit Visa given its higher-than-average yields.

B2B payments represent a large untapped market for Visa, where innovation has significantly lagged the consumer payments market with an estimated ~45% of B2B payments still made via checks. Increasing investment in modernizing B2B payments opens up a new large TAM for Visa, as it finds new applications for Visa Direct and its other offerings. We think the electronification of payments and B2B should be enough to support double-digit compounding earnings growth for Visa, driving mid-teens returns in coming years.

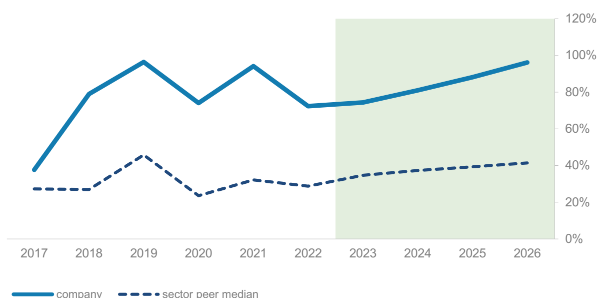
Risk Reward: Overweight / Price Target $288

Yum! Brands (YUM)

Value of Growth Analysis



Return on Net Operating Assets (RNOA) Analysis



Sector Yardsticks

Sector Yardsticks
Yum! Brands, Inc. vs. Sector Peers

	Yum! Brands, Inc. percentile range (vs. sector peers)					Peer median
	0–20	20–40	40–60	60–80	80–100	
Growth						
EPS '23-'25 CAGR			15.1%			15.1%
Sales '23-'25 CAGR				8.0%		6.7%
Returns						
RNOA					74.4%	34.7%
EBIT margin					32.8%	17.7%
Valuation						
P/E			25.2x			25.2x
EV/EBIT		19.9x				20.1x
P/FCF			27.2x			27.2x
Leverage						
Net Debt/EBITDA					4.9x	4.4x

Note: Sector Yardstick metrics - Returns: 2023e; Valuation: 2023e; Leverage 2023e. (Net Debt/EBITDA and P/FCF could be NM) Source: Morgan Stanley Research

Restaurants Industry View: In-Line

Brian Harbour

A globally diversified, multi-brand fast food franchisor. YUM's portfolio includes KFC, Taco Bell, Pizza Hut, and the Habit Burger Grill, with 98% of its 55k+ stores franchised, across 155+ countries. YUM is one of few globally scaled and diversified operators we think can sustain close to 6% store growth and high-single-digit system sales growth over the next several years, driving low- to mid-teens EPS growth. YUM's franchised model is among the most asset-light, cash generative, and offers lower earnings volatility.

Better prospects for sustaining higher unit growth: While 5% global unit growth is the new target vs. 4% prior, YUM is running ~6% today with solid execution evident over the past 2 years in a tough environment. 15+ int'l franchisees are publicly listed, well capitalized, and relatively consolidated, which underlies this growth and diversifies it beyond mainly China. Taco Bell Int'l should be an accelerating source of growth and KFC is fast growing in emerging markets.

Brand and franchisee strength is higher than in prior downturns: KFC and Pizza Hut US have been shrinking brands in the US but are on better footing today. Broadly, brand positioning, menu, and store footprints are in better shape and digital channels are built out, helping KFC and PH compete in any economic environment and any country.

Sales drivers include China, digital expansion: China, almost 10% of revenue, was a drag on sales in '22, but should be a tailwind from here. Much of YUM's newer digital tools are just at the point of scaling and beginning to drive sales / franchisee profits. As a multi-brand operator with leading scale, few companies can invest in these in a similar fashion.

Risk Reward: Overweight / Price Target $155

Morgan Stanley is acting as financial advisor to Cogent Communications Holdings, Inc. ("Cogent") in relation to its definitive agreement to acquire T-Mobile US, Inc.'s Wireline Business, as announced on September 7, 2022. The proposed acquisition is subject to receipt of regulatory approvals and other customary closing conditions. Cogent has agreed to pay fees to Morgan Stanley for its financial services. Please refer to the notes at the end of this report.

Morgan Stanley is acting as financial advisor to Activision Blizzard Inc. ("Activision") in relation to its agreement to be acquired by Microsoft Corp., as announced on January 18, 2022. The proposed acquisition is subject to customary closing conditions and completion of regulatory review. Activision has agreed to pay fees to Morgan Stanley for its services. Please refer to the notes at the end of this report.

Disclosure Section

The information and opinions in Morgan Stanley Research were prepared by Morgan Stanley & Co. LLC, and/or Morgan Stanley C.T.V.M. S.A., and/or Morgan Stanley Mexico, Casa de Bolsa, S.A. de C.V., and/or Morgan Stanley Canada Limited. As used in this disclosure section, "Morgan Stanley" includes Morgan Stanley & Co. LLC, Morgan Stanley C.T.V.M. S.A., Morgan Stanley Mexico, Casa de Bolsa, S.A. de C.V., Morgan Stanley Canada Limited and their affiliates as necessary.

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

For valuation methodology and risks associated with any recommendation, rating or price target referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834-6860; Sydney +61 (0)2-9770-1505; Tokyo +81 (0)3-6836-9000. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY 10036 USA.

Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Vincent Andrews; David Arcaro, CFA; Michael J. Cyprys, CFA, CPA; Diane Ding, Ph.D.; James E Faucette; Simon Flannery; Terence C Flynn, Ph.D.; Stephen W Grambling; Betsy L. Graseck, CFA; Simeon Gutman, CFA; Brian Harbour, CFA; Toni Kaplan; Kristine T Liwag; Meta A Marshall; Devin McDermott; Dara Mohsenian, CFA; Brian Nowak, CFA; Andrew B Pauker; Joshua C Pokrzywinski; Drew Ranieri; Tejas Savant; Alex Straton; Benjamin Swinburne, CFA; Michelle M. Weaver, CFA; Keith Weiss, CFA; Michael J Wilson; Erin Wright.

.

Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflictpolicies. A Portuguese version of the policy can be found at www.morganstanley.com.br

Important Regulatory Disclosures on Subject Companies

The analyst or strategist (or a household member) identified below owns the following securities (or related derivatives): Vincent Andrews - Alphabet Inc.(common or preferred stock), Blackstone Inc.(common or preferred stock), Cheniere Energy Inc(common or preferred stock), Microsoft(common or preferred stock), MSCI Inc.(common or preferred stock), Nike Inc.(common or preferred stock), Visa Inc.(common or preferred stock); Diane Ding, Ph.D. - Visa Inc.(common or preferred stock); James E Faucette - Alphabet Inc.(common or preferred stock), Blackstone Inc.(common or preferred stock), Microsoft(common or preferred stock), UnitedHealth Group Inc(common or preferred stock); Terence C Flynn, Ph.D. - Costco Wholesale Corp(common or preferred stock), Eaton Corporation PLC(common or preferred stock), Estee Lauder Companies Inc(common or preferred stock), Exxon Mobil Corporation(common or preferred stock), JPMorgan Chase & Co(common or preferred stock), MasterCard Inc(common or preferred stock), Microsoft(common or preferred stock), Nike Inc.(common or preferred stock), Northrop Grumman Corp.(common or preferred stock), Prologis, Inc.(common or preferred stock), T-Mobile US, Inc.(common or preferred stock), Visa Inc.(common or preferred stock); Betsy L. Graseck, CFA - Alphabet Inc.(common or preferred stock), Exxon Mobil Corporation(common or preferred stock), MasterCard Inc(common or preferred stock), NextEra Energy Inc(common or preferred stock), Visa Inc.(common or preferred stock); Simeon Gutman, CFA - Liberty Formula One(common or preferred stock), UnitedHealth Group Inc(common or preferred stock); Brian Harbour, CFA - JPMorgan Chase & Co(common or preferred stock); Nicholas Lentini, CFA - Nike Inc.(common or preferred stock); Brian Nowak, CFA - Exxon Mobil Corporation(common or preferred stock); Joshua C Pokrzywinski - Blackstone Inc.(common or preferred stock), Microsoft(common or preferred stock), UnitedHealth Group Inc(common or preferred stock); Tejas Savant - JPMorgan Chase & Co(common or preferred stock), MasterCard Inc(common or preferred stock), Motorola Solutions Inc(common or preferred stock), Novo Nordisk A/S(GDR), UnitedHealth Group Inc(common or preferred stock), Yum! Brands, Inc.(common or preferred stock); Keith Weiss, CFA - Thermo Fisher Scientific Inc.(common or preferred stock).

As of February 28, 2023, Morgan Stanley beneficially owned 1% or more of a class of common equity securities of the following companies covered in Morgan Stanley Research: Alphabet Inc., American Express Company, Blackstone Inc., Cheniere Energy Inc, Costco Wholesale Corp, Eaton Corporation PLC, Eli Lilly & Co., Estee Lauder Companies Inc, Exxon Mobil Corporation, Intuitive Surgical Inc., JPMorgan Chase & Co, Linde PLC, MasterCard Inc, Microsoft, NextEra Energy Inc, Nike Inc., Northrop Grumman Corp., Prologis, Inc., Thermo Fisher Scientific Inc., UnitedHealth Group Inc, Visa Inc., Yum! Brands, Inc..

Within the last 12 months, Morgan Stanley managed or co-managed a public offering (or 144A offering) of securities of American Express Company, Cheniere Energy Inc, Eaton Corporation PLC, Eli Lilly & Co., JPMorgan Chase & Co, MasterCard Inc, NextEra Energy Inc, Northrop Grumman Corp., Prologis, Inc., T-Mobile US, Inc., Thermo Fisher Scientific Inc., UnitedHealth Group Inc.

Within the last 12 months, Morgan Stanley has received compensation for investment banking services from Alphabet Inc., American Express Company, Blackstone Inc., Cheniere Energy Inc, Eaton Corporation PLC, Eli Lilly & Co., Hilton Worldwide Holdings Inc, JPMorgan Chase & Co, MasterCard Inc, NextEra Energy Inc, Nike Inc., Northrop Grumman Corp., Novo Nordisk A/S, Prologis, Inc., Thermo Fisher Scientific Inc., UnitedHealth Group Inc.

In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from Alphabet Inc., American Express Company, Blackstone Inc., Cheniere Energy Inc, Costco Wholesale Corp, Eaton Corporation PLC, Eli Lilly & Co., Estee Lauder Companies Inc, Exxon Mobil Corporation, Hilton Worldwide Holdings Inc, Intuitive Surgical Inc., JPMorgan Chase & Co, Linde PLC, Lululemon Athletica Inc., MasterCard Inc, Microsoft, MSCI Inc., NextEra Energy Inc, Nike Inc., Northrop Grumman Corp., Novo Nordisk A/S, Old Dominion Freight Line Inc, Prologis, Inc., T-Mobile US, Inc., Thermo Fisher Scientific Inc., UnitedHealth Group Inc, Visa Inc., Yum! Brands, Inc..

Within the last 12 months, Morgan Stanley has received compensation for products and services other than investment banking services from Alphabet Inc., American Express Company, Blackstone Inc., Cheniere Energy Inc, Eaton Corporation PLC, Eli Lilly & Co., Exxon Mobil Corporation, Hilton Worldwide Holdings Inc, JPMorgan Chase & Co, MasterCard Inc, Microsoft, Motorola Solutions Inc, MSCI Inc., NextEra Energy Inc, Nike Inc., Northrop Grumman Corp., Novo Nordisk A/S, Old Dominion Freight Line Inc, Prologis, Inc., T-Mobile US, Inc., Thermo Fisher Scientific Inc., UnitedHealth Group Inc, Visa Inc., Yum! Brands, Inc..

Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: Alphabet Inc., American Express Company, Blackstone Inc., Cheniere Energy Inc, Costco Wholesale Corp, Eaton Corporation PLC, Eli Lilly & Co., Estee Lauder Companies Inc, Exxon Mobil Corporation, Hilton Worldwide Holdings Inc, Intuitive Surgical Inc., JPMorgan Chase & Co, Linde PLC, Lululemon Athletica Inc., MasterCard Inc, Microsoft, MSCI Inc., NextEra Energy Inc, Nike Inc., Northrop Grumman Corp., Novo Nordisk A/S, Old Dominion Freight Line Inc, Prologis, Inc., T-Mobile US, Inc., Thermo Fisher Scientific Inc., UnitedHealth Group Inc, Visa Inc., Yum! Brands, Inc..

Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: Alphabet Inc., American Express Company, Blackstone Inc., Cheniere Energy Inc, Eaton Corporation PLC, Eli Lilly & Co., Exxon Mobil Corporation, Hilton Worldwide Holdings Inc, JPMorgan Chase & Co, Linde PLC, MasterCard Inc, Microsoft, Motorola Solutions Inc, MSCI Inc., NextEra Energy Inc, Nike Inc., Northrop Grumman Corp., Novo Nordisk A/S, Old Dominion Freight Line Inc, Prologis, Inc., T-Mobile US, Inc., Thermo Fisher Scientific Inc., UnitedHealth Group Inc, Visa Inc., Yum! Brands, Inc..

An employee, director or consultant of Morgan Stanley is a director of Alphabet Inc., Estee Lauder Companies Inc. This person is not a research analyst or a

member of a research analyst's household.
Morgan Stanley & Co. LLC makes a market in the securities of Alphabet Inc., American Express Company, Blackstone Inc., Cheniere Energy Inc, Costco Wholesale Corp, Eaton Corporation PLC, Eli Lilly & Co., Estee Lauder Companies Inc, Exxon Mobil Corporation, Hilton Worldwide Holdings Inc, Intuitive Surgical Inc., JPMorgan Chase & Co, Liberty Formula One, Lululemon Athletica Inc., MasterCard Inc, Microsoft, Motorola Solutions Inc, NextEra Energy Inc, Nike Inc., Northrop Grumman Corp., Novo Nordisk A/S, Old Dominion Freight Line Inc, Prologis, Inc., T-Mobile US, Inc., Thermo Fisher Scientific Inc., UnitedHealth Group Inc, Visa Inc., Yum! Brands, Inc..
The equity research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues. Equity Research analysts' or strategists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.
Morgan Stanley and its affiliates do business that relates to companies/instruments covered in Morgan Stanley Research, including market making, providing liquidity, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis. Morgan Stanley may have a position in the debt of the Company or instruments discussed in this report. Morgan Stanley trades or may trade as principal in the debt securities (or in related derivatives) that are the subject of the debt research report.
Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight, Not-Rated or Underweight (see definitions below). Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold and sell. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Global Stock Ratings Distribution

(as of February 28, 2023)
The Stock Ratings described below apply to Morgan Stanley's Fundamental Equity Research and do not apply to Debt Research produced by the Firm.
For disclosure purposes only (in accordance with FINRA requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
STOCK RATING CATEGORY	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	**1353**	**37%**	**284**	**43%**	**21%**	**593**	**38%**
Equal-weight/Hold	**1664**	**45%**	**294**	**45%**	**18%**	**732**	**47%**
Not-Rated/Hold	**4**	**0%**	**0**	**0%**	**0%**	**0**	**0%**
Underweight/Sell	**660**	**18%**	**80**	**12%**	**12%**	**232**	**15%**
TOTAL	**3,681**		**658**			**1557**	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Important Disclosures for Morgan Stanley Smith Barney LLC & E*TRADE Securities LLC Customers

Important disclosures regarding the relationship between the companies that are the subject of Morgan Stanley Research and Morgan Stanley Smith Barney LLC or Morgan Stanley or any of their affiliates, are available on the Morgan Stanley Wealth Management disclosure website at www.morganstanley.com/online/researchdisclosures. For Morgan Stanley specific disclosures, you may refer to www.morganstanley.com/researchdisclosures.

Each Morgan Stanley research report is reviewed and approved on behalf of Morgan Stanley Smith Barney LLC and E*TRADE Securities LLC. This review and approval is conducted by the same person who reviews the research report on behalf of Morgan Stanley. This could create a conflict of interest.

Other Important Disclosures

Morgan Stanley & Co. International PLC and its affiliates have a significant financial interest in the debt securities of Alphabet Inc., Cheniere Energy Inc, Costco Wholesale Corp, Eli Lilly & Co., Estee Lauder Companies Inc, Exxon Mobil Corporation, JPMorgan Chase & Co, MasterCard Inc, Microsoft, Motorola Solutions Inc, MSCI Inc., NextEra Energy Inc, Nike Inc., Northrop Grumman Corp., Novo Nordisk A/S, T-Mobile US, Inc., Thermo Fisher Scientific Inc., UnitedHealth Group Inc, Visa Inc., Yum! Brands, Inc..

A member of Research who had or could have had access to the research prior to completion owns securities (or related derivatives) in the Blackstone Inc., Microsoft, T-Mobile US, Inc.. This person is not a research analyst or a member of research analyst's household.

Morgan Stanley Research policy is to update research reports as and when the Research Analyst and Research Management deem appropriate, based on developments with the issuer, the sector, or the market that may have a material impact on the research views or opinions stated therein. In addition, certain Research publications are intended to be updated on a regular periodic basis (weekly/monthly/quarterly/annual) and will ordinarily be updated with that frequency, unless the Research Analyst and Research Management determine that a different publication schedule is appropriate based on current conditions.

Morgan Stanley is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Morgan Stanley produces an equity research product called a "Tactical Idea." Views contained in a "Tactical Idea" on a particular stock may be contrary to the recommendations or views expressed in research on the same stock. This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Matrix at http://www.morganstanley.com/matrix.

Morgan Stanley Research is provided to our clients through our proprietary research portal on Matrix and also distributed electronically by Morgan Stanley to clients. Certain, but not all, Morgan Stanley Research products are also made available to clients through third-party vendors or redistributed to clients through alternate electronic means as a convenience. For access to all available Morgan Stanley Research, please contact your sales representative or go to Matrix at http://www.morganstanley.com/matrix.

Any access and/or use of Morgan Stanley Research is subject to Morgan Stanley's Terms of Use (http://www.morganstanley.com/terms.html). By accessing and/or using Morgan Stanley Research, you are indicating that you have read and agree to be bound by our Terms of Use (http://www.morganstanley.com/terms.html). In addition you consent to Morgan Stanley processing your personal data and using cookies in accordance with our Privacy Policy and our Global Cookies Policy (http://www.morganstanley.com/privacy_pledge.html), including for the purposes of setting your preferences and to collect readership data so that we can deliver better and more personalized service and products to you. To find out more information about how Morgan Stanley processes personal data, how we use cookies and how to reject cookies see our Privacy Policy and our Global Cookies Policy (http://www.morganstanley.com/privacy_pledge.html).

If you do not agree to our Terms of Use and/or if you do not wish to provide your consent to Morgan Stanley processing your personal data or using cookies please do not access our research.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the circumstances and objectives of those who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

The fixed income research analysts, strategists or economists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts', strategists' or economists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

The "Important Regulatory Disclosures on Subject Companies" section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common equity securities of the companies. For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities/instruments or derivatives of securities/instruments of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley Research personnel may participate in company events such as site visits and are generally prohibited from accepting payment by the company of associated expenses unless pre-approved by authorized members of Research management.

Morgan Stanley may make investment decisions that are inconsistent with the recommendations or views in this report.

To our readers based in Taiwan or trading in Taiwan securities/instruments: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Any non-customer reader within the scope of Article 7-1 of the Taiwan Stock Exchange Recommendation Regulations accessing and/or receiving Morgan Stanley Research is not permitted to provide Morgan Stanley Research to any third party (including but not limited to related parties, affiliated companies and any other third parties) or engage in any activities regarding Morgan Stanley Research which may create or give the appearance of creating a conflict of interest. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these

securities/instruments.
Morgan Stanley is not incorporated under PRC law and the research in relation to this report is conducted outside the PRC. Morgan Stanley Research does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves. Neither this report nor any part of it is intended as, or shall constitute, provision of any consultancy or advisory service of securities investment as defined under PRC law. Such information is provided for your reference only.
Morgan Stanley Research is disseminated in Brazil by Morgan Stanley C.T.V.M. S.A. located at Av. Brigadeiro Faria Lima, 3600, 6th floor, São Paulo - SP, Brazil; and is regulated by the Comissão de Valores Mobiliários; in Mexico by Morgan Stanley México, Casa de Bolsa, S.A. de C.V which is regulated by Comision Nacional Bancaria y de Valores. Paseo de los Tamarindos 90, Torre 1, Col. Bosques de las Lomas Floor 29, 05120 Mexico City; in Japan by Morgan Stanley MUFG Securities Co., Ltd. and, for Commodities related research reports only, Morgan Stanley Capital Group Japan Co., Ltd; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents) and by Morgan Stanley Bank Asia Limited; in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research) and by Morgan Stanley Bank Asia Limited, Singapore Branch (Registration number T14FC0118J); in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Canada by Morgan Stanley Canada Limited; in Germany and the European Economic Area where required by Morgan Stanley Europe S.E., authorised and regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin) under the reference number 149169; in the US by Morgan Stanley & Co. LLC, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized by the Prudential Regulatory Authority and regulated by the Financial Conduct Authority and the Prudential Regulatory Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. RMB Morgan Stanley Proprietary Limited is a member of the JSE Limited and A2X(Pty) Ltd. RMB Morgan Stanley Proprietary Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited. The information in Morgan Stanley Research is being disseminated by Morgan Stanley Saudi Arabia, regulated by the Capital Market Authority in the Kingdom of Saudi Arabia , and is directed at Sophisticated investors only.
The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at Professional Clients only, as defined by the DFSA. The financial products or financial services to which this research relates will only be made available to a customer who we are satisfied meets the regulatory criteria to be a Professional Client. A distribution of the different MS Research ratings or recommendations, in percentage terms for Investments in each sector covered, is available upon request from your sales representative.
The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.
As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided exclusively to persons based on their risk and income preferences by the authorized firms. Comments and recommendations stated here are general in nature. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.
The following companies do business in countries which are generally subject to comprehensive sanctions programs administered or enforced by the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") and by other countries and multi-national bodies: MasterCard Inc.
The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages relating to such data. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and S&P.
Morgan Stanley Research, or any portion thereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.
Indicators and trackers referenced in Morgan Stanley Research may not be used as, or treated as, a benchmark under Regulation EU 2016/1011, or any other similar framework.
The issuers and/or fixed income products recommended or discussed in certain fixed income research reports may not be continuously followed. Accordingly, investors should regard those fixed income research reports as providing stand-alone analysis and should not expect continuing analysis or additional reports relating to such issuers and/or individual fixed income products.
Morgan Stanley may hold, from time to time, material financial and commercial interests regarding the company subject to the Research report.
© 2023 Morgan Stanley